The Political Economy of Development (Tourism as an Instrument for Development)

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Chapter 1

THE POLITICAL ECONOMY OF DEVELOPMENT
A Historical Perspective

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Abstract: There is no clear understanding on the terms and concepts of development, both in the academic literature of tourism and in general. What constitutes “growth”, and what is “development”? The emphasis on mathematical modeling has favored the use of simplifying hypothesis, with dubious practical results for the real problems of development. This chapter discusses the most relevant aspects of theories of development, enunciated at different times in the course of the last two centuries, with the purpose of illuminating different theoretical approaches to analysis and policy formulation that may support actual strategy and practice in tourism. Keywords: Development theories, history of economic thought, neoclassical school, Washington Consensus, heterodox theories

INTRODUCTION

The concept of development has been central to much thinking in economics as well as political science and practice. This concept was of a descriptive
and analytical nature in its beginnings, policies for development being outside the mind-frame, as the “invisible hand” of the market would certainly produce economic growth and increased well-being. This accumulated growth would, at certain stage, result in system paradigmatic changes and economic development.

Nevertheless, during the 19th century and the beginning of the 20th century, economists, sociologists, moral philosophers, and political thinkers never really abandoned the thought of providing the recipes for “growth” and “development”. While most of these recipes referred to how best release the inherent mechanisms of the market, a few considered that social and political intervention (often intense) was necessary to produce the paradigmatic changes making development happen.

The Russian October Revolution of 1917 first and then the Great Depression, beginning in 1929, drastically changed many ideas about growth, development, and ultimately economic policy and macro-governance. Nothing was the same again. Economic thought and, within it, theories of growth and development were covered in a wide spectrum: from analyses and proposals still advocating the totally free operation of markets, to those favoring complete social—statist—control of economic (and political) forces; in the middle, thinkers and theories offering less fundamentalist (more pragmatic) mixes of markets and institutions (Blaug, 1997; Heilbrunner, 1999; Schumpeter (1994[1954]); Weintraub, 1999). The intellectual, ethical, and political debate lives on.

In the backstage, there is still a certain bewilderment of terms and concepts. What constitutes “growth” and what is “development”? Much of the economic analysis of growth, over the last one and a half centuries, has focused on this concept from the viewpoint of dynamic equilibrium, perhaps because this approach lends itself to sophisticated mathematical modeling. It is only after World War II, beginning in the 1950s and 1960s, that the concept of development, beyond mere growth, has been understood once again as involving human capital, social capital, institutional frameworks, and innovation.

Theories of both economic growth and development consider quite many intervening variables in the realms of quality and quantity of capital, labor, and primary resources. Specifically, they scrutinize the dynamics of economic systems as depending on aggregate demand and supply, with these in turn being changed by other variables, such as investment (both domestic and foreign), innovation (in technology, procedures, or organizational setups), agent motivation, capacity and participation, institutional frameworks (agility, effectiveness and efficiency, corruption, rule of law), and the like. However, the new realities (Drucker, 1989) of the second half of
the 20th century and the first decade of the 21st have forced some very pragmatic thinking. Bilateral and multilateral agencies for development, jointly with ministries, official national institutions, and an army of nongovernmental organizations, have faced many concrete situations where the specific objectives to be achieved and the instruments available were highly dependent on the specific social and economic frameworks.

To begin with, in-depth studies of the reasons for underdevelopment in given communities and cultural regions have shown that the definition of underdevelopment itself and the likely causes for the situation vary enormously. Relative isolation, geographic or otherwise (such as shortage of infrastructures), might provide for a set of causes of underdevelopment, while scarcity of inputs (notably, capital and skilled labor) is often another reason. But unjust terms of exchange and biased rules of the game may cut across many other circumstances and be a deep-rooted hindrance to growth and development. When considering the policies and the instruments for development, theoretical and practical obstacles are also found. While there have been many studies of development from a historical perspective, it is not always evident that these views are nonbiased or free from present-day beliefs; in any case, the successful development cases of countries in the past, operating in a different world, cannot consistently be mimicked under very different rules nowadays.

In this framework, it seems essential to explore key elements of the theories of development proposed since the concept was first articulated more than two centuries ago, vis-à-vis their usefulness in tourism policy and governance. Bad practice too often emanates from poor theory and thus contemporary strategy and policymaking in tourism as an instrument for development cannot ignore the trials and errors of theories enunciated long ago, many of which have however survived because of their solid formulation or their capacity to serve powerful political or economic interests. The detailed formulation of policy plans, programs, and specific projects for economic development is today an important prerequisite to obtain finance, to optimize its use, to measure its impacts, and to evaluate its results. It cannot and must not be done independent from the past. However, to understand the past, to comprehend the real effect of earlier efforts, one needs a wealth of theoretical and practical information as well as a strong conceptual framework to study such information.

Cicero said that not to know and absorb the knowledge generated in the past was to commit ourselves to eternal childishness. However, many practitioners could admit that there is much more hype than proven fact about the use of tourism as an instrument of development. While the creation
of income and employment, and thus economic growth, is consubstantial with investments in tourism, the case has not been clearly established for development.

THEORIES OF ECONOMIC DEVELOPMENT

Properly structured theories of economic development began with the birth of economics as a scientific discipline, developing frameworks for thought (paradigms and theories) based on hypothesis and predictions that could be tested against observed facts. In this context, although early mercantilist thought in the 16th, 17th, and early 18th centuries was already concerned with “national wealth”, and sought to increase it by trade dominance, this never really constituted a real economic paradigm, being limited to defending specific interests and viewpoints in society. Going beyond issues relating to the rulers’ wealth or the accumulation of gold, the physiocrats, in the second part of the 18th century, emphasized, for the first time, the importance of productive effort, although they limited this to agriculture. Theirs was basically a philosophy underlining “natural values”. However, it did establish the foundations for later economic thought, defending private property and laissez-faire.

Classical Economic Thought

The theory of development really takes off with the publication of *An Inquiry into the Nature and Causes of the Wealth of Nations* by Adam Smith in 1776. Classical economists, like Smith himself, Thomas Robert Malthus, and David Ricardo, did concentrate on the institutional changes conducing to long-term growth and development. Industrial production becomes the epitome of the creation of wealth, and the way to improve living conditions through increases in productivity. Science and technology, as well as applied knowledge, are the basis for innovation, the foundations of greater productivity.

Colonialism had also an important role to play. Both Smith and Ricardo saw colonies as favoring the economic development of the metropolis. Colonies could provide the raw materials and food needed for increased production, compensating for the decreasing returns of limited natural resources, “land”, in the metropolis. Physiocracy and mercantilism were under attack. Sound economic thinking rejected protectionism; free trade
had to be adopted as soon as nascent industries had rooted themselves. However, decades were necessary to walk the talk. In the first part of the 19th century, national industries in the United Kingdom, Germany, and France were well protected by laws and tariffs against imports from each other or any attempt at industrial production and exports from colonies and former colonies. Even embodied knowledge, in the way of advanced machinery and highly skilled laborers, was not to cross borderlines. While the invisible hand of Smith was to produce self-regulation and prosperity in the domestic markets, these seemingly still needed de facto protection against competing foreign powers, whether actual or potential.

For all that, classical economists did study the theory of development beyond the limitations of political and entrepreneurial realities in their time. Smith’s invisible hand shows how the free elections of individuals may result in the advancement of society. The division of labor, together with provisions of capital and constant innovation, results in increased productivity and wealth. Malthus takes up the issue of long-term economic growth and its consequences on well-being and social conditions. In contrast with Smith, he concentrates on the need to stimulate both production and effective demand; this way, according to Malthus say, crises can be avoided and full employment maintained. Then, in his turn, Ricardo focuses on the beneficial effects of free trade. He shows that this is efficient, not only in the case of cheaper production costs, but also in all cases when a country has comparative advantages in the production of certain goods or services. Any country may benefit from free trade specializing in the production and subsequent exchange of those goods that it manufactures best. Thus, Ricardo clearly associates the creation of wealth (growth, development) with comparative production advantages in a given country; this is a solid foundation for free-trade globalization, as post-ricardian 20th century theory has subsequently elaborated.

The emphasis on the invisible hand and freedom of the markets was to remain in contemporary economic development thought until the publication in 1848 of John Stuart Mill’s The Principles of Political Economy: With Some of Their Applications to Social Philosophy, and of the Manifesto of the Communist League (The Communist Manifesto) by Karl Heinrich Marx’s in the same year, to be followed by the three volumes of Marx’s Capital in 1867, 1885, and 1894, respectively. In The Principles, Stuart Mill dealt for the first time with what he baptized as the “failures of the market”. The market provided a magnificent arena where individual decisionmaking combined to produce growth, development, and well-being, but the market needed a moral (and legal) framework which should include corrections to its
automatic functioning. In principle, this should be done through taxation, although, later on, Mill went on to recommend “economic democracy” in the capitalist economy, including features such as the election of management by workers and cooperative wage systems. Mill’s reputation as a moral philosopher and political thinker was so high that, far from being rejected, his ideas were widely accepted in academia and thinking society, and his book was the standard text in prestigious universities for several decades.

Marx followed a different line of thought. He believed and wrote that capitalism had freed enormous resources for growth and development. Capitalists had learnt from merchants how to benefit from price differences in markets. Capitalists were appropriating the difference in value (the surplus value) between the price of labor and that of the goods and services produced. This profit could be reinvested to enlarge the scale of production, as well as improving the efficiency of production through innovation. However, development in the capitalist system was both unjust and limited by periodic crisis. This was unjust because a small part of society was appropriating most of the value produced by a majority (the laborers or the proletariat). It was limited because the worsening periodic crises were to put a final ceiling to growth and development. In Marx thought, this was not to be solved by small corrections in the market mechanism; revolutionary “institutional” changes had to occur to solve the sociopolitical problems of uneven or asymmetrical development. Were these institutional transformations not to happen, market forces, left on their own, would ultimately result only in stagnation.

Thus, classical economics—also called “classical political economy”—was the first economic paradigm systematically concerned with growth and development. However, no matter how one may have been persuaded by the elegant thinking underlying these theories—the original model of this paradigm, emphasizing the role of the invisible hand, the total automatism of the market mechanisms, the perfect interplay of supply and demand, and the advantages of free trade—all was soon to be under revision by the paradigm theoretical followers. In addition, practice in the real world significantly differed from theory, as the inertia of well-established economic and political interests were not to be easily overcome. The situation was to change in the following years.

Neoclassical Theories versus Statism

The focus of classical economists on global issues—such as development, universally affecting the whole of mankind—was to disappear for some six
decades (1870–1930), during the golden age of neoclassical economic thought.

The neoclassical economic paradigm sets the limits to its theoretical interests in the understanding of microeconomic phenomena: the adjustment of supply and demand in markets and the price equilibrium mechanisms, the optimization of behavior by the enterprise and *Homo economicus*, and hence the issues of short-term equilibrium. Following contemporary intellectual feats in the physical sciences, practitioners in the neoclassical paradigm sought the application of mathematical models to their constructs of economic reality. Thus, the marginalism revolution took place, where the seminal works of William Stanley Jevons’ *Theory of Political Economy* in 1871, Carl Menger’s *Principles of Economics*, also in 1871, and Leon Walras’ *Elements of Pure Economics* in 1874—soon followed by Alfred Marshall’s enormously influential *Principles of Economics* in 1890—emphasized the importance of changes at the margin, in the quantities used of a good or service. They sustained the working hypothesis that individuals and organizations take decisions in a totally rational way, in a situation of perfect information about conditions prevailing. These decisions aim to maximize the “utility” (satisfaction) of stakeholders, although later this was boiled down to the maximization of profit.

Therefore, there is no drastic change between the basic assumptions of early classical economic thought and the “truths” of the neoclassical school. The automatism of the markets is there to stay, the actions of the individual decisionmakers result in the optimization of resources and the public good … and free trade will produce global development. It is the emphasis that has changed: from a historical qualitative approach to a timeless quantitative universal formulation. Thus, the colonies become irrelevant, development will somehow automatically happen, and the role of the State should definitely be minimized. No more flirting with market failures and State intervention. Neoclassical economists are generally not concerned with the origins and distribution of wealth. Inequalities among individuals in domestic economies are due to different levels of education and capacities, and will to prosper. Differences among countries are due to diverging stocks of natural resources, human capacities, and capital. Free trade, with minimal State intervention, is the mechanism to help backwardness.

The neoclassical-marginalist paradigm of economics (and of development) was not without criticism from economists living at the time of its beginnings. By the turn of the century, some of them already held extremely negative views on the neoclassical paradigm. In the United States, Thorstein Bunde Veblen was renowned—and still is—for his institutionalism approach.
Veblen, no doubt influenced by Herbert Spencer, tried to combine in his thinking the evolutionary ideas of Darwinism and the functions of sociopolitical institutions. Technological advances were the foundation of development, as they had an effect both on industrial production (the basis of prosperity) and on institutions (where the conflict between vested interests and the new society had to be resolved). In his well-known books, *The Theory of the Leisure Class* (1899) and *The Theory of the Business Enterprise* (1904), Veblen emphasized the conflict between a “non-productive class of businessmen”, manipulating the institutions with the only function of making profits for a leisure class (and trying to impress on others through “conspicuous consumption”), and the productivity of “industry”, operated by technicians, in need of social change to keep innovating. Although Veblen favored State ownership and control of industrial enterprises, he was in no way a Marxist. His views of institutional change (development) opened up yet another alternative for economic and political thinking over the next 100 years.

In the following decades, neoclassical economics came increasingly under attack, both for their unrealistic assumptions (more applicable to an idealistic world of perfect information, no transaction costs, totally rational decisionmakers, etc.) and for their inherent limitations of scope (emphasis on microeconomics, irrelevance in macroeconomics and development issues).

On the matter of unrealistic assumptions, adjustments came even from within neoclassical ranks. Edward Chamberlin, from Harvard University, published his book on *The Theory of Monopolistic Competition* in 1933. There he questioned the central assumption of perfect competition in original neoclassical thought. From an antagonist point of view, outside the neoclassical school, Joan Robinson, from Cambridge University in the United Kingdom, went beyond that, and dealt both with unrealistic assumptions in the neoclassical school and with the issue of macroeconomic concerns. Besides, the neoclassical paradigm was to face a “moment of truth” with the events of the late 1920s and the coming of the Great Depression. It was only with the works of John Maynard Keynes (beginning in the 1910s and climaxing in the 1930s) that hardcore neoclassical thinking would be deeply revised, and development issues could be tackled afresh. After the publication of *The General Theory of Employment, Interest and Money* by Keynes in 1936, macroeconomic issues were to be approached from a different angle. As Joan Robinson puts it, in “An Open Letter from a Keynesian to a Marxist”, the Keynesian paradigm shift was enormous: “Marshall did something more effective than changing...
the answer. He changed the question. [Then] … Keynes changed the question back again” (Robinson, 1953, pp. 19–23).

The new question from the founder of Keynesian economics did shift the concerns of economics henceforth. The issue was not anymore how relative prices were fixed at the microeconomics level. Global output was the question, and therefore economic growth, macroeconomic stability, and development. The Keynesian paradigm was to initiate what later on has been baptized the “Three Cambridge Revolutions”: the theories of imperfect competition, effective demand, and capital. This connected again with the classical thinking of David Ricardo. Subsequently, the works of Piero Sraffa, Richard Kahn, and Joan Robinson were to give scope and depth to Keynesianism and Post-Keynesianism in their treatment of public policies, State intervention, and development theory. Microeconomic equilibrium à la neoclassical school did not guarantee full employment or full use of productive capacities. Macroeconomics was indeed very different, in theory and practice, from the conduct of businesses at firm or industry level.

When the world had to face a post-colonial era after the Great Depression and World War II, the issue was not anymore whether State intervention should happen or not in economic affairs. The question was rather how it should happen to achieve goals of growth, stability, justice (redistribution of incomes included), and development. The Keynesian brand of statism (rather than neo-Marxism or Veblen’s institutionalism) ruled theoretical thinking, institutions, and governance—the United Nations and the Bretton Woods institutions included—and the practical issues of development policy and governance. The “golden age of capitalism”, from 1950 until the first oil crisis of 1973, was to be a Keynesian age, with macro strategies, policies, and programs emanating and being run by global and State level institutions.

Contemporary Theories of Economic Development

After World War II, the issue of economic development—its measurement, analysis, and related public policies—has been central to political discussion, especially at international level and in the realm of the United Nations and other global institutions of governance. In postwar theories of economic development, there has always been a question underlying: the relationship between economic growth and development. While orthodox neoliberal thinking has basically equated growth with development in a one-way direction, other approaches have (a) noted the interdependence of both concepts;
(b) stressed the importance of mitigating/eliminating poverty; (c) emphasized the relevance of providing essential services in education, sanitation, health, safety, security, and the like; and (d) concluded that development is also highly dependent on institutional change and increased participation in macro-decisionmaking. In these latter views, growth is only a subset of development.

Models of Economic Growth

The great majority of economic growth models consider three essential legs to fundamental policies of economic growth: the production function, the saving function, and the human capital (labor supply function). There are several well-established models. The first one of these, the Harrod–Domar model, seeks to explain growth in terms of the rate of savings (to income) and the ratio between output and capital goods needed to obtain it (the productivity of physical capital). In this model, the relative price of labor and capital is fixed, implying that they tend to be used permanently in the same ratio. Growth is to be achieved by manipulating the rate of savings, to be made available for investment, and the productivity of physical capital, through technology and innovations.

The Solow model of exogenous growth follows on the Harrod–Domar approach but introduces technology as an exogenous variable, changing with innovations. It also adds labor as a variable factor of production, with diminishing returns for either physical capital or labor when increased separately. Their productivity is constant if their ratio remains fixed. Thus, in the short-run only marginal growth will be achieved if the supply of labor and/or the rate of savings and investments are increased. When developing countries improve their saving rates and investments, they will converge toward the income level of advanced economies as these latter countries have lower marginal returns on their capital investments. In the long run, technological progress will mean higher productivity of capital and labor, but as innovations become widespread, convergence of diverse national economies will follow.

On the other hand, endogenous growth theories assume that innovations/technological progress and greater quality in human capital occur internally, as a result of the normal behavior of institutions and decisionmakers. These contemporary approaches to growth imply that public policies fostering the creation, dissemination, and application of knowledge will result in growth, a rather Schumpeterian perspective. Equally important also is the institutional framework supporting low cost exchanges of information and
property rights. Institutions supporting patents and intellectual property rights are a much debated issue in this framework.

Precursor Theories of Economic Development

The Keynesian paradigm established its pre-eminence as a result of success in dealing with the Great Depression and the economic consequences of World War II. After the war, and with the onset of independence movements for many colonies, theories of economic development became a must for the new United Nations and other global institutions, as well as for bilateral relations between former metropolis and colonies.

The first set of development theories is referred to as modernization theories. These prescribe that the road to development has already been constructed in the past by the industrialized countries of the present. Development is simply to close the gap between traditional and modern society. Developing economies should overcome the resilience of their institutions, follow the modernization road, and progressively reproduce the moves of successful countries. This implies of course a change of the former institutional framework, abandoning old ways and favoring free market setups. Political, cultural, and social obstacles exist, but must be defeated if development is to occur.

For its theoreticians, this modernization process implies standardization or, at least, a convergence toward economically and institutionally homogeneous societies. Given this, lack of capital and quality human resources can be remedied through foreign investments, education, and development aid. Thus, stagnating national and regional economies and societies may decide to transform their ways and means toward productive activities more in line with international markets. Within a given country, the traditional productive sectors will become noncompetitive with reference to the economic sectors in transformation. Employment and incomes in the traditional sectors will be destroyed and it will be essential that public intervention—not excluding economic planning—regulates the transition and makes certain that appropriate investments, both domestic and foreign, take place.

Modernization theories place great emphasis on economic growth, although in a context of institutional changes. However, cultural, political, and institutional changes are exogenous to the models proposed. Among these theories, those proposed by Harrod (1939), Domar (1946), Nurske (1961), Lewis (1954) and Rostow (1960) are of interest to this discussion. As already examined, in the 1930s and 1940s Roy Harrod and Evsey Domar independently proposed a Keynesian economic growth model where
the “natural rate of growth” is basically determined by the labor supply and its productivity and by the supply of capital and its productivity. The supply of capital depends on investments, resulting from savings, and the quantitative supply of labor on active population growth. Changes in the productivity of capital and labor are exogenous to the model. Most of these variables are independent, with the result that growth will be unstable and difficult to stimulate.

Ragnar Nurske was one of pioneers of the classical theory of development after World War II. His concept of a “vicious circle” implied that poverty itself discouraged development through institutional and economic feedbacks opposing growth and change. His experience as an economist at the League of Nations (the United Nations’ predecessor) made him foster the theory of the big push, jointly with Paul Rosenstein-Rodan and other economists at the time. Private stakeholders, facing decisions to invest and develop, would be extremely influenced by other decisionmakers. Governmental planning and action as well as provision of new infrastructures possibly make the difference for development to “take off”. In his turn, Arthur Lewis focused on institutional dualism, with emphasis on the reallocation of labor from the traditional to the modern sector until takeoff was achieved. His view was that of the economic historian, however much more optimistic than Nurske’s and Rosenstein-Rodan’s. Government economic policies were important, but the real point was that of an institutional change in the rules of the game of the economic system. His preoccupation for the issues of equity versus growth in the development process is still a contemporary issue both for theorists and politicians.

For Walt Whitman Rostow, economic growth—and development—take place in a series of steps, delineated in his famous and influential book, *The Stages of Economic Growth: A non-communist manifesto* (1960). His theory of modernization states that a country must go through traditional society, preconditions for development, takeoff, drive to maturity, and high mass consumption. His theory is well connected with theories of sociocultural evolutionism, analyzing how cultures and economies have evolved through history. Rostow’s deep involvement with the Kennedy and Johnson administrations in the United States put him in a position of enormous influence over development institutions and programs at the time.

Belonging to the precursors of economic development studies in the second part of the 20th century, Karl Gunnar Myrdal (Myrdal, 1957, 1968, 1970), the founder of the Institute for International Economic Studies at the University of Stockholm and of the Stockholm International Peace Research Institute, is known for his institutional approach to development
issues. He criticized many of the coetaneous theories of development, such as Rostow’s, on the grounds of their political and cultural bias. For Myrdal, cumulative causation resulted in increased inequality which could be only remedied by noneconomic institutional approaches to development.

Finally, the French economist François Perroux took a different approach to development theories. He introduced the concept of growth (and development) poles, a key element in French development policy and indicative planning in the 1950s and 1960s. These development poles happened not in real but in abstract economic space. An industry dominant in such a pole is propulsive and will cause polarization. Agglomeration and linkages in such abstract economic space will cause positive external economies, where the output of a firm reduces the costs of other firms. Backward linkages could thus benefit supplying firms and industries. In the case of tourism, all sorts of suppliers (such as accommodation, transport, and amenities) could be positively affected. Forward linkages could, for instance, positively affect cultural, knowledge, and entrepreneurial activities.

**Heterodox Theories of Economic Development**

So-called heterodox theories of economic development bring about the concept that mainstream economic conventions of the neoclassical synthesis type cannot explain underdevelopment; much less prescribe policies and programs toward development. Heterodox theories, such as structuralism, Marxian/neo-Marxian economics, and institutionalism (a) criticize the inability of the market system—and free-trade mechanisms and to perform *vis-à-vis* development; (b) underline the role of cultural, social, and political variables in achieving development; and (c) propose different kinds and intensities of government and institutional intervention (macro-governance) to overcome the obstacles to development.

Structuralism theories defend that socioeconomic realities in developing countries are the result of historically determined institutions and mechanisms. Less-developed economies cannot replicate in the present the paths followed in the past by now-successful countries. Underdevelopment is not a phase or stage, *à la* Rostow, but a structural condition in a given historical framework. Developed countries sustain economic growth through changes in the supply structure, mainly through knowledge management and innovation. Underdeveloped economies try to create growth through demand—lead interaction with advanced economies: this creates a dual structure in their economic system.
Thus, a center-periphery structure arises internationally. The center gets the upper hand in international trade and sets the rules of the game. The periphery, in playing by these rules, suffers from uneven terms of trade where the technology in traded goods and the market structures of monopolies and oligopolies play against its economic growth and its development. Trade cycles and changes in consumer preferences, declining terms of trade because of innovation in products and processes, and limited increases of productivity all negatively affect the possibilities of less-developed countries.

Policy recommendations for development in the structuralism paradigm derive from institutions such as the Economic Commission for Latin America and the Caribbean, one of the five regional commissions of the United Nations. These recommendations range from import substitution industrialization to forming regional alliances to enlarge market size. In this range, other policies, such as guided investments, proactive use of tariffs and taxes, and selective public expenditures, play a key role.

From another perspective, neo-marxist theories of economic development have emphasized dependency of an underdeveloped periphery from the central advanced economies. Within this school of thought, Russian-American economist Paul Baran analyzed the dual sector structure of less-developed economies, characterized by a large agricultural sector and a small industrialized one. Class relations in these economies made it difficult to use any surpluses from agriculture to favor development. Internal conditions were the deep reason for stagnation, and it was state intervention that could reduce dependency and promote development through planned industrialization. In his *The Political Economy of Growth* (1957) and his posthumous *Monopoly Capital* (with Sweezy, 1968), Baran used his redefined concept of surplus value to propose his theory of dependency and underdevelopment.

In his turn, Paul Sweezy, the well-known founder of the famous US magazine *Monthly Review*, had been preoccupied with the problem of stagnation during the Great Depression years. Heavily influenced by great economists of his time, such as Joseph Schumpeter and Paul Samuelson, Sweezy took a different road, that of Marxian economics, to approach the problems of underdevelopment. In his *Monopoly Capital*, (Baran & Sweezy, 1968), he explains that the real problem is not obtaining a surplus from capital ownership, but absorbing it back into the economic flow. If the tendency of capitalism at world level was to stagnate, why was the economy expanding at such high rates in the postwar years? Sweezy and Baran justify this in the exceptionality of that “golden-era of capitalism”, both because
technological improvements and new industries, à la Schumpeter, and the built-up of consumer liquidity.

In this last line of thought, Sweezy was to be a precursor, with his coauthor Harry Magdoff (1988), of the importance of financial capital in countering the business cycle and stimulating growth, postponing depression or stagnation. This has become a key issue in understanding growth and development in the last decades, especially in the context of the last Great Recession of 2008.

Andre Gunder Frank’s neo-marxist views of underdevelopment were different (Frank, 1971). As a German-born economist educated at the University of Chicago—paradoxically completing his dissertation under laissez-faire famous economist Milton Friedman—he gained substantial first-hand knowledge of development issues in Latin America, working at the University of Chile at the time of Salvador Allende’s Government. Frank, closely related to the ideas of Immanuel Wallerstein, contributed in the 1970s and 1980s to the theory of world systems. World systems analyses propose that there is an international division of labor, the basis for a classification of countries in core, semi-periphery, and periphery. The core benefits from capital-intensive production (referring to both financial-physical capital and human capital); the periphery’s play in the system is the production of raw materials with high deficiencies in the provision of capital. This has been going on for hundreds or even thousands of years in world history. Thus, the unit of analysis in development theory cannot be the nation-state; the modernization theories of development err the point in pretending that there is a single track for development for all countries at all historical times; and transnational world structures condition conditioning local, regional, and national developments through most of the history.

From a slightly different angle, Amin’s neo-marxist approach to underdevelopment underlines the role of monopolistic powers in world systems (1973). Born in Egypt and with deep experience of underdevelopment in African economies (now director of the Third World Forum in Dakar, Senegal). Amin declares that monopolies of technology, global finances, access to natural resources, media and communication, and military can condition world systems and the possibilities of the periphery to escape underdevelopment while attached to such systems.

In his turn, Emmanuel (1969) became an important figure in development economics because of his concept of “unequal exchange”. It is not prices that determine wage-levels; one must rather see historically set low wages in developing countries as the cause for unequal terms of exchange...
and, consequently, underdevelopment. In this, he opposed the approach of later-day neo-marxists, such as already reviewed Amin (1973), which attributed low wages to low productivity (because of low provisions of conventional and human capital) and saw monopolies as the cause of unequal exchange.

A somehow different approach to very much the same issues is taken by the so-called Basic Needs Theory. It questions the much assumed view that redistribution of incomes and welfare may negatively affect economic growth. Landmarks in this perspective appeared in On Economic Inequality (Sen & Foster, 1973). A year later, the World Bank’s publication, Redistribution with Growth (Chenery, 1974), was published. According to its author, “... the main thrust of the book is the need for fundamental reorientation of development strategies so that the benefits of economic growth can reach a wider range of the population of developing countries ...” (World Bank Press Release of September 30, 1974).

But it was the International Labor Organization which, in 1976, set the “basic needs agenda”, with a year 2000 time horizon. Basic needs came in four groups: minimum personal and family consumption of food, clothing, and housing; access to essential services, such as health, education, transportation, and water; employment and decent jobs; and individual freedoms and rights, participation in social decisionmaking, and a healthy and satisfactorily humane environment.

The implications of the basic needs approach regarding welfare and development indicators are many. From 1978 on, the World Bank sponsored a plethora of studies (Grant, 1978; Hicks & Streeten, 1979; Stewart, 1985) suggesting diverse proxy variables and indicators in-lieu-of GDP measurements of development.

Criticism of the basic needs approach has come from left and right. Neo-marxists have argued that basic needs are a relativistic concept, and fruitless outside cultural, political, and historical scenarios. For some New Right authors, it is the market which should allocate resources both for individual basic needs and those needs perceived as social musts by individuals; there is no role for the State in the definition of these needs or the provision of corresponding goods and services.

**Questioning the Orthodox Views of Economic Development**

After modernization theories—à la Rostow—neoclassical, liberal, and new right perspectives did continue the orthodox approach to the issues of
growth and development. Certain international institutions such as the Economic Commission for Latin America and the Caribbean and, to a lesser degree, the World Bank, widened the scope of their theoretical and practical approaches to development. Others (like the International Monetary Fund, and, later on, the World Trade Organization) stayed very much within the orthodox track.

As the years and decades went by, the international organizations with a mandate in international finances and trade adopted, more and more, a neoliberal approach to the issues. Besides, their growing influence in their clients’ economic policy made up into a monopolistic block of providers for the ills of underdevelopment and local economic crises.

The Cold War scenarios of these decades bring an element of political alignment to the issues of poverty and underdevelopment. Countries in the area of influence of the West had little choice but adopting a neoliberal framework of public policies. The East remained stubbornly antimarket, in spite of increasing failures and inefficiencies in central planning. Even the concept of Soziale Marktwirtschaft (social market economy), born in postwar Germany to beautify plain neoliberal market economics, fell into disrepute and disuse in the final decades of the 20th century. Few countries, developing or otherwise, remained unaligned.

It is against this background that the so-called “Washington Consensus” was born during the 1980s. In its wider sense, it referred to deep-rooted ideological beliefs about the supremacy of market economics against practically any sort of State intervention. In a narrower version, it was applied to the economic policy recommendations prescribed to developing countries by the predominant international institutions of trade and finance: the International Monetary Fund, the World Bank, and the World Trade Organization, with some participation by the US Treasury Department.

The term was coined in 1989 by the British economist John Williamson, of the Washington Think Tank Institute for International Economics, and prescribed ten recommendations: fiscal policy discipline; redirection of public spending, from indiscriminate subsidies to pro-growth, pro-poor services; tax reform, in the direction of ample tax bases and moderate tax rates; market determined (but moderate) interest rates (in real terms); currency exchange rates favoring competitiveness; trade liberalization; liberalization of (incoming) foreign direct investment; privatization of State (and public) enterprises; deregulation (except for environmental and consumer protection); and solid institutional reforms enforcing property rights.

The Washington Consensus has come to be strongly defended or opposed by theoreticians and practitioners of development programs over
the last 20 years. Defenders argue that its recommendations have been implemented by governments of full colors, in Latin America and elsewhere, and that it has led to considerable success in countries like Chile, Uruguay, and Brazil.

However, criticism of the Washington Consensus has come from many and diverse quarters. Post-Keynesian voices have made the argument that too much confidence was set on market mechanisms, even that there was a high degree of market fundamentalism in the underlying policies, and that these were too rigid to be applied in a wide variety of countries with very diverse institutional backgrounds. Nobel economist Joseph Stiglitz has referred to the “one size fits all” approach to concrete development problems: the “stabilize, liberalize, and privatize medicine”, all in one fast and strong dose and with no consideration for any side-effects. Dani Rodrik of the John F. Kennedy School of Government at Harvard University has maintained that growth in the “era of the Consensus” was less than expected in Latin America and Africa, and that the costs of transition have been much higher than originally hoped for in former socialist economies (2006, p. 2).

From their viewpoint, radical thinkers like George (1999) and Klein (2007) have seen the Washington Consensus as an instrument to integrate the low-wage markets of underdeveloped countries into more advanced economies. This has not produced any (perhaps originally envisioned) results for development, as lowering trade barriers has resulted in unemployment for high-wage economies, while any improvements in less-developed regions has been erased, to a great extent, by inflation and disruption of former social consensus. In any case, it has brought up small, wealthy indigenous elites with no interest whatsoever in institutional change or the welfare of the majority. Klein has even gone beyond this in arguing that economic and political shocks, sometimes intended, are being used as somber scenarios for the introduction of fundamentalist market policies.

But perhaps the most subtle criticism came from one of the Consensus founding institutions: The World Bank itself. As soon as 1998, rather toward the beginning of his mandate, then President of the World Bank, Australian-American economist James Wolfensohn, offered the first inside criticism: the Consensus was not delivering; market fundamentalism had to be replaced with “human development”; debts of the poorest countries were to be relieved; and antagonism from many bilateral cooperation agencies and nongovernmental organizations to be re-evaluated with a view to consensus forming. These were interesting years for the World Bank when the institution “stood on the shoulders of giants”. Nobel prize economists
like Amartya Sen and Joseph Stiglitz were advising President Wolfensohn on “stretch targets”; not what specific “feel-good projects” were achievable with X funds from the Bank in country Y, but rather how projects could be scaled up to middle- and long-term ambitious goals in development. Of course, long-term development thinking and the scalability requisite had to be self-consistent and face a number of deep challenges, too often ignored previously: the challenge of resources, leverage, and management. Empowering the available in-country human resources was also a prerequisite; scaling up was impossible without it. Participation of the community of people in every development project was essential; for this, institutions needed to be strengthened; governance of the development efforts had to be fostered.

By 2004, the World Bank could announce through Wolfensohn’s words that “… the Washington Consensus has been dead for years …. What we are trying to do … is to go beyond what we have done so often in the past, which is to satisfactorily succeed in a project here or a project there” (2004, p. 4). This new vision was spelled out in a World Bank (2005) book showing how much theoretical and practical knowledge had been achieved in the institution since the first days of the Washington Consensus. In its foreword the essence of such a vision was summarized:

… the options for achieving these goals [stability, domestic liberalization, and openness] vary widely. Which options should be chosen depends on initial conditions, the quality of existing institutions, the history of policies, political economic factors, the external environment, and last but not least, the art of economic policy making (World Bank, 2005, p. xii).

The book covered three diverse perspectives: analytical, policy, and operational. It emphasized the central role of economic analysis in formulating and implementing development policies; there were no a priori formulæ; economists and development practitioners only have principles and tools; it is the manner and sequence of use that determine success or failure.

The 1995–2005 Wolfensohn decade at the World Bank certainly helped to appraise the merits and shortcomings of the Washington Consensus. However, as it has been repeatedly expressed recently, the question is now to build a contemporary “kit box” of principles and tools that will assist governments, development agencies, and policymakers and implementers in their mission. The task of finding new paradigms for development policy—sufficiently ample to be used in a wide variety of situations but consistent
enough for systematic application—probably began in 2004 with the aforementioned moves of the World Bank and the almost simultaneous encounter of prestigious worldwide economist in September 2004, named the Barcelona Consensus.

But both the Barcelona Consensus and the so-called “augmented Washington Consensus” are seen as failing to recognize that effective paradigms for development cannot simply consist of a shopping list of recommended policy actions. The additional elements in these lists, such as compliance with World Trade Organization requirements, anticorruption, corporate governance, financial standards, “flexibility” of labor markets, “independent” central banks, cautious liberalization of capital flows, market-set exchange rates, etc., still fail to constitute a system of procedures and tools that can be structured into a consistent development policy. Besides, it is important to notice that these proposals leave behind the central issue of capability building which has played a key role in the development of countries in East Asia.

Recognizing that the Washington Consensus cannot be resuscitated, two new “consensus”, of a political and technical inspiration, respectively, have set contemporary frameworks for development policy. In the political arena, after the Millennium Development Goal Review Summit of September 2010 in the United Nations Headquarters in New York, the G-20 group of countries was hard pressed to produce tangible results toward a people-centered vision of development (Oxfam, 2010). Thus, in November 2010, the G-20 group of statesmen meeting in Seoul, Korea, produced, among a handful of resolutions, the “Seoul Development Consensus for Shared Growth”. This resolution identifies nine areas of key significance for sustainable growth: infrastructure, private investment and job creation, human resource development, trade, financial inclusion, growth with resilience, food security, domestic resource mobilization, and knowledge sharing. The principles deemed essential for policies and actions are six: focus on economic growth; global development partnership; global or regional systemic issues; private sector participation; complementarity; and outcome orientation.

Expert appraisals of the Seoul Consensus range from those indicating that, however incomplete, it may show the way of new Korean or Asian-style development paradigms, to those literally saying it is merely “another nail in the coffin” of the Washington Consensus (Financial Times, 2010), and still others pointing at the lack of clear commitments and governance proposals (Kumar, 2010).
However, a predominantly technical post-Washington approach, known as the Beijing-Seoul-Tokyo BeST Consensus, has indeed produced a more systematic treatment of contemporary development theory and practice. As a departing point, Keun Lee of Seoul National University, John Matthews of Macquarie University and Robert Wade of the London School of Economics (2007) enunciated the shortcomings of the Washington Consensus. First, its 10 recommendations—easily summarized in the need for a secure and stable macroeconomic setting, and the requisite of a strong marketization of the economy—did not result from any close scrutiny of success development cases, but rather from the orthodox theoretical economic paradigm recipes. Second, the recommendations of the Washington Consensus bypass both the microeconomic task of building the capacity of firms and the need to change the production structure at macroeconomic level; by blindly trusting the correctness of market forces they leave no room for State action in these tasks. Third, the Washington Consensus chooses to ignore “late-comer effects”, and development as a catch-up process of filling historically produced gaps between haves and have-nots.

The BeST Consensus proposes an integrated set of assumptions underlying policy programs and actions to tackle the complex issues of fostering development in concrete national or regional scenarios with their own historically conditioned institutional backgrounds. While the Washington Consensus, as well as the more recent Barcelona Consensus and Seoul Consensus, are speculative in their recommendations, the BeST Consensus precepts are built on factual economic history assessed recent cases of development in East Asia. Its proposals connect well with the needs of a public policy framework for specific sectoral policies, including tourism policy. The BeST Consensus recommendations are grouped in three categories: identifying the agents of economic growth and fostering their initial capabilities; enhancing the capabilities of these agents by a knowledge management process subject to market environment trial and error continuous improvement; and creating a macro-environment in which these agents will catch-up with, and consolidate into, world-market players. In recommending these, the Best Consensus is very much aligned with some contemporary theories of development.

Thus, from the viewpoint of social capital (Bourdieu, 1986; Coleman, 1990; Putnam, 2001) vis-à-vis development, three different perspectives can be considered (Woolcock & Narayan, 2000): the community, network, and institutional approaches. All three of course face difficulties in clarifying the concept of social capital and finding ways for its evaluation.
The community perspective underlines the interactions (bounding) among members of the social group and how this may result in social capital. It considers that these interactions generate well-being and minimizes the negative effects that could be originated as well. It is a good departing point to consider institutions within society and their necessary previous existence for development.

The network perspective emphasizes the multiple connections among members of a social group, both within that group and with external partners in other networks. Granovetter (1985) showed that social capital is highly dependent on the embeddedness of economic relations between individuals in social networks, and not in stereotyped markets.

Then, the institutional approach has evolved a great deal since the times of Veblen (1899, 1904). Although the founding fathers of the New Institutional Economics (Coase, 1992; North, 1995) are well within the neoclassical framework, albeit indicating its shortcomings, other authors (Chang, 2001) are more critical and have moved toward an Institutionalism Political Economy. A recent contribution to the theory of development by Acemoglu and Robinson (2012) has shown the key role of inclusive (as opposed to extractive) institutions in creating and sustaining the sine-qua-non conditions for development.

Finally, it should be added, the concepts of human capital and human development have also deserved a great deal of attention in contemporary theory and practice. From its origins, already in Adam Smith work, through the economic thought of Marshall, Fisher, and others, the concept of capital linked to individuals—human capital—was explicitly dealt with by Schultz (1962, 1963), Denison (1962) and Becker (1964).

From 1990 onward, the United Nations Program for Development has been publishing its yearly Human Development Reports. In that year, the United Nations General Assembly Resolution 57/264, set the framework for Human Development Reports, whose purpose was to go beyond the issues of income to the questions of enlarging the capacities of citizens in the realms of freedom to choose and freedom to participate, both understood as key elements of human development (Mahbub ul Haq, 1996).

Following this initiative, and in the conceptual framework developed by Sen (1999) on capabilities, the initiative of elaborating a composite indicator of human development took roots. After its 2010 revision, the Human Development Index is calculated on three dimensions: (i) A long and healthy life: Life expectancy at birth. (ii) An education index: Mean and expected years of schooling. (iii) A decent standard of living: Gross National Income per capita at purchasing power parity.
In the last years, the contributions of human development experts (Alkire, 2005; Alkire & Foster, 2011; Nussbaum, 2011; Sen, 2009, 2011) have resulted in new approaches to the concept of human capital and the measurement of human development, notably on aspects referring to (multidimensional) poverty, inequality, and gender. It is because of all these contemporary contributions to the concept of development, and the practices of governments, businesses, and international cooperation agencies in this respect that the role of tourism in bringing about development must be re-appraised, with deep consequences for policy and strategy. The age of innocence, where tourism contributions to development where naively argued in generic terms, has come to an end; a new era of enlightenment, requiring both a deeper knowledge of development ways and means, and of tourism governance instruments, has begun.

CONCLUSION

Although professional economists and politicians have been concerned with growth, prosperity, and development for centuries, it was only after World War II that the theory and practice of development became an intrinsic factor in international and national policies. It is essential to consider this theory and practice before the implications for tourism policy and governance can be studied and made explicit.

To begin with, the Marshall Plan had to deal with the harsh realities of reconstruction, and the Bretton Woods discussions resulted in institutions committed to development and international governance. In this context, a debate arose between orthodox theories emphasizing free trade and monetary approaches and heterodox views underlining the importance of human capital as well as the role of institutions. Then, development initiatives and practices in the 1950s and 1960s were deeply conditioned by the Cold War and confrontations between East and West. In this framework, newly independent countries presented additional challenges, beyond reconstruction after the war. The Bretton Woods institutions—that is, The International Monetary Fund (IMF) and The World Bank (WB)—ruled, and economic growth became almost synonymous with development. This period came to an end when the dollar convertibility was abandoned at the beginning of the 1970s and two oil crises followed in that decade.

The end of the era of cheap fossil fuels, when the United States experienced its domestic peak-oil, resulted in worldwide economic turbulence.
The IMF and the WB imposed a set of rules of so-called neoliberal inspiration, with different results in Africa, Latin America, and Asia. By the 1980s, these rules condensed in a paradigm for economic development theory and practice that came to be known as the Washington Consensus. It focused on economic stability, trade liberalization, and a strong privatization (concerned almost exclusively with the performance of markets). Development was supposed to follow from strict adherence to the IMF and the WB recommendations by countries in need of support. Development became almost synonymous with economic growth, which is widely opposed by experts nowadays (Alkire, 2005; Nussbaum, 2011), who emphasize the key role of other variables—such as quality and length of life, education, institutional enhancement, and environmental sustainability—and have emphasized the concept of human development (Nussbaum, 2000, 2011; Nussbaum & Sen, 1993; Sen, 1999) against the notion of economic growth or even economic development.

By the end of the 1990s, the Washington Consensus had exhausted its credibility. In 1990, the United Nations adopted the approach of human development and then, in 2000, a policy framework known as the Millenium Development Goals with indicators referring to social and cultural as well as economic variables. Some countries, especially in Latin America, were shown as Consensus successes, but others in Africa had failed after following the IMF and WB recommendations. Finally, many others, notably in Asia, had achieved notable levels of growth and development in spite of ignoring many of the Consensus prescriptions. By 2005, many experts and practitioners of development programs were looking elsewhere for best practices and policy models. All this resulted in increased attention to the achievements of certain East Asian countries, such as Japan, Korea, and China, and the proposal for a new BeST (Beijing-Seoul-Tokyo) Consensus, this time emphasizing the role of all stakeholders, the advancement of institutions, and a certain gradualism in the process of development. Proactive participation of the stakeholders, as citizens and through the institutional framework, thus becomes a necessary condition for development, as recognized in the UN Millenium Development Goal and in the BeST Consensus approach.

While economics play an important role, it is beginning to be understood that what is needed is “economics with ethics”, and inclusive (Acemoglu & Robinson, 2012) institutions. Differences in cultural backgrounds, and thus in institutional capital—as well as the geopolitical setting—mean that the generic approaches to development will always need to be interpreted and specifically applied against the local realities. A set of new indicators and
proxy variables must be considered; among them: quality of life; “happi-
ess”; equitable distribution of incomes; equitable citizens’ participation in
the use of society’s resources and the definition of strategies for the future
and management practices for the present (good governance); people’s self-
esteem (through promotion of dignity and respect for individual values);
inter- and intra-regional equity; accumulation of human capital not only
as a prerequisite but as an objective of development; consideration of the
welfare and range of options available for future generations; and multi-
variable frameworks with unique combinations for every development
region (and destination, where tourism is called upon to play a role for
development). All in all, these new approaches to the theory and practice
of development have profound implications for tourism policy and govern-
ance. It can no longer be sustained that any investment in tourism will
automatically produce development; a much more knowledgeable approach
is required.
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