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Business tourism spending in Eurozone countries: Detecting for convergence trends

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Abstract

The paper detects for convergence trends in terms of per capita business tourism spending among the Eurozone countries. The paper employs the methodological approach of gaps' convergence clubs, and covers the period 2001-2018. The findings point to clear trends of convergence, indicating that business tourism seems to alleviate spatial externalities in the Eurozone economic space. This calls for a set of well-targeted and carefully-designed policy interventions focusing on promoting – and reaping the benefits of – business tourism.

Keywords: business tourism spending, gaps' convergence clubs, Eurozone countries

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Introduction

The paper detects for convergence trends in terms of per capita business tourism spending among the Eurozone countries. The issue is salient given that within the EU economic space – and much more within the Eurozone economic space – the abolition of the (artificial) border impediments has released dynamics and brought into surface a new mix of opportunities, threats and challenges that changes the balance between centripetal and centrifugal forces (Kallioras *et al*., 2009). Yet, the issue has not hitherto been examined. The paper contributes to the development of a broad and comprehensive understanding on the issue through identifying business tourism as convergence determinant. Such a contribution may provide insight to both theory and policy-making, in an era of severe competition and volatile market conditions.

The paper utilizes business tourism spending data obtained from World Travel and Tourism Council (WTTC). Business tourism spending refers to spending on business travel within a country by residents and international visitors, and is expressed in euros (nominal prices). The paper employs the methodological approach of gaps' convergence clubs (Chatterji, 1992; Chatterji and Dewhurst, 1996), and covers the period 2001-2018. The latter includes both the early-EMU period (i.e. period 2001-2010) and the economic crisis period (i.e. period 2010-2018). The paper proceeds as follows. The next section presents the research method. The third section provides the empirical findings. The last section offers the conclusions.

Research Method

Instead of employing the commonly-used methodological approaches of β- and σ-convergence (Barro, 1991; Barro and Sala-i-Martin, 1992, *inter alia*), the paper employs the methodological approach of gaps' convergence clubs (Chatterji, 1992; Chatterji and Dewhurst, 1996), in order to detect for convergence trends, in terms of per capita business tourism spending, among the Eurozone countries. Adopting the methodological approaches of β- and σ-convergence may lead to misleading results as both the aforementioned methodological approaches are "trapped" in the rationale of linearity, and thus they rule out the possibility that the spatial entities considered may form convergence clubs. In contrast, the methodological approach of convergence clubs points out that it is quite natural to expect that groups of spatial entities are converging but that these groups are themselves diverging from each other. Broadly speaking, this means that convergence and divergence trends may coexist, although in different proportions and at different strengths (Petrakos *et al*., 2011). Intuitively, this might be the case for the Eurozone countries, in terms of per capita business tourism spending.

Empirically, a notable approach for investigating for the emergence of convergence clubs is the gaps' approach suggested by Chatterji (1992) and Chatterji and Dewhurst (1996). In technical terms, the approach of gaps' convergence clubs, requires the identification of a "leading" spatial entity. The latter may consider as the spatial entity with the highest value of the variable under consideration among the spatial entities considered. The gap is the quotient between the value of the variable under consideration of the "leading" spatial entity and the value of the variable under consideration of each of the spatial entities considered. The approach of gaps' convergence clubs relates the gap, in terms of the variable under consideration, at one date with the corresponding gap at an earlier date, including further powers of the latter (Equation 1). Hence, the gaps' convergence clubs approach transcends the linear (i.e. "black or white") rationale of the β- and σ-convergence concepts. This is so as the reference point of the approach of gaps' convergence clubs is the pre-assumption of specific polynomial functions and, the consequent classification of the spatial entities considered into convergence clubs on the basis of the corresponding pre-assumed equilibria.

$$\ln\left(Y_{l,f}/Y_{e,f}\right) = \sum_{p=1}^{n} \gamma_p \left[\ln\left(Y_{l,b}/Y_{e,b}\right)\right]^p + u_e \qquad \textit{(Equation 1)}$$

b = base (i.e. initial) year, f = final year, e = spatial entities considered, l = "leading" spatial entity, Y = variable under consideration, γ = coefficient, p = power, n = highest power, u = disturbance term

The interpretation of the estimated (i.e. selected) equation necessitates the utilization of the graphic representation of the $y = x$ equation (i.e. the 45°-straight-line) as a benchmark. This benchmark eases the interpretation evincing the spatial entities that, on average, converge to the "leading" one as well as the spatial entities that, on average, diverge from the "leading" one. Convergence to the "leading" spatial entity is detected when, on average, the gap in the final year is lower than the corresponding gap in the initial year (i.e. the line of the estimated equation is below the line of the benchmark equation, in the first quarter). Divergence from the "leading" spatial entity is detected, otherwise.

Results

The detection for convergence trends among the Eurozone countries, in terms of per capita business tourism spending, is based on the econometric estimation of the gaps' convergence clubs Equation. The empirical analysis covers the period 2001-2018, as well as the sub-periods 2001-2010 and 2010-2018.

The estimated gaps' convergence clubs equation for the period 2001-2018 is a third-power equation (Model 1). The intersection points with the benchmark equation are (0.000, 0.000), (0.409, 0.409), and (1.078, 1.078) (Figure 1). The results of the empirical analysis indicate the emergence of one convergence club. This convergence club includes a couple of sub-clubs. The first sub-club includes Finland, Germany, Luxemburg, Belgium, Austria, Italy, France, the Netherlands, Ireland, Spain, and Greece. These countries, on average, diverge from the "leading" country and converge internally, towards the equilibrium point (0.409, 0.409). The second sub-club includes Cyprus, Slovenia, Estonia, Malta, Portugal, Slovakia, Lithuania, and Latvia. These countries, on average, converge to the "leading" country and converge internally, towards the equilibrium point (0.409, 0.409). By and large, the first sub-club includes the Eurozone countries coming from the "old" EU (i.e. EU15), whereas the second sub-club includes the corresponding newcomers to the EU (with the exception of Portugal).

The estimated gaps' convergence clubs equation for the sub-period 2001-2010 is a second-power equation (Model 2). The intersection points with the benchmark equation are (0.000, 0.000), and (0.628, 0.628) (Figure 2). The results of the empirical analysis indicate the emergence of one convergence club. This convergence club includes a couple of sub-clubs. The first sub-club includes Finland, Germany, Luxemburg, Belgium, Austria, Italy, France, the Netherlands, Ireland, Spain, Greece, Cyprus, Slovenia, Estonia, Malta, and Portugal. These countries, on average, diverge from the "leading" country and converge internally, towards the equilibrium point (0.628, 0.628). The second sub-club includes Slovakia, Lithuania, and Latvia. These countries, on average, converge to the "leading" country and converge internally, towards the equilibrium point (0.628, 0.628).

$$GAP2018 = 2.250GAP2001 - 4.217(GAP2001)^2 + 2.837(GAP2001)^3 \quad \textit{(Model 1)}$$
$$\qquad\qquad\quad *** \qquad\qquad\quad ** \qquad\qquad\quad ***$$

adj. $R^2 = 0.387$

dependent variable: GAP2018; independent variable: GAP2001
**** statistically significant at 1%; ** statistically significant at 5%*

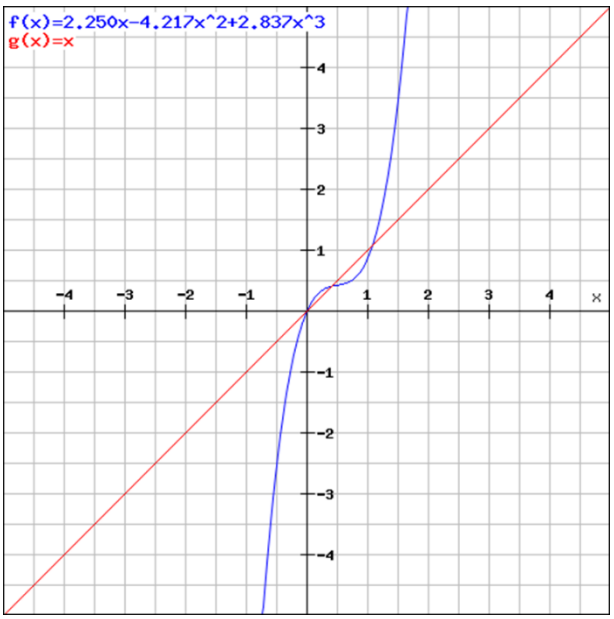

Figure 1. *The gaps' convergence clubs equation for the Eurozone countries in terms of per capita business tourism spending: Intersection points with the benchmark equation, period 2001-2018.*

$$GAP2010 = 1.316GAP2001 - 0.503(GAP2001)^2 \quad \textit{(Model 2)}$$
$$\qquad\qquad\quad *** \qquad\qquad\quad *$$

adj. $R^2 = 0.642$

dependent variable: GAP2010; independent variable: GAP2001
**** statistically significant at 1%; * statistically significant at 10%*

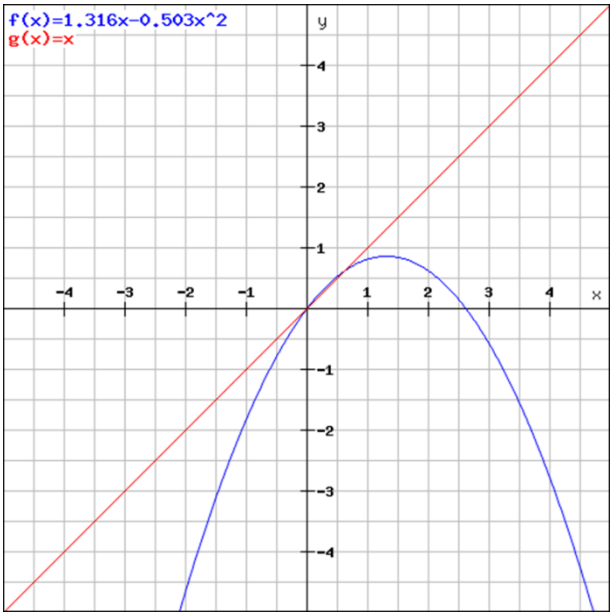

Figure 2. *The gaps' convergence clubs equation for the Eurozone countries in terms of per capita business tourism spending: Intersection points with the benchmark equation, period 2001-2010.*

The estimated gaps' convergence clubs equation for the sub-period 2010-2018 is a fourth-power equation (Model 3). The intersection points with the benchmark equation are (0.000, 0.000), (0.217, 0.217), (0.606, 0.606), and (0.861, 0.861) (Figure 3). The results of the empirical analysis indicate the emergence of a couple of convergence clubs. The first convergence club includes a couple of sub-clubs. The first sub-club includes Finland, Ireland, Germany, Austria, and Italy. These countries, on average, diverge from the "leading" country and converge internally, towards the equilibrium point (0.217, 0.217). The second sub-club includes France, the Netherlands, Belgium, Luxemburg, Spain, Estonia, Portugal, Malta, Slovakia, Cyprus, and Slovenia. These countries, on average, converge to the "leading" country and converge internally, towards the equilibrium point (0.217, 0.217). The second convergence club includes Greece, Latvia, and Lithuania. These countries, on average, diverge from the "leading" country and from the first convergence club, and converge internally, towards the equilibrium point (0.861, 0.861). The formation of a second convergence club during the sub-period 2010-2018 indicates that the "picture" of convergence, even though it remains strong, is, somehow, "blurred".

$$GAP2018 = \underset{***}{2.569}GAP2010 - \underset{**}{11.629}(GAP2010)^2 + \underset{***}{23.305}(GAP2010)^3 - \underset{***}{13.839}(GAP2010)^4 \qquad \textit{(Model 3)}$$

adj. $R^2 = 0.822$

dependent variable: GAP2018; independent variable: GAP2010
**** statistically significant at 1%; ** statistically significant at 5%*

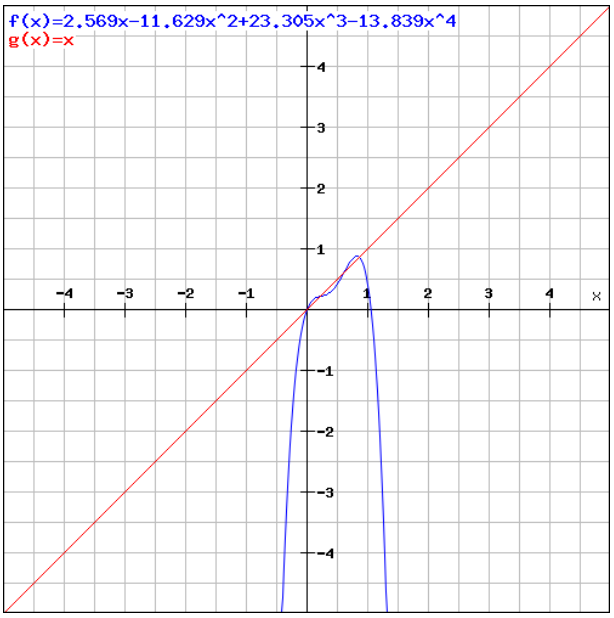

Figure 3. *The gaps' convergence clubs equation for the Eurozone countries in terms of per capita business tourism spending: Intersection points with the benchmark equation, period 2010-2018.*

Conclusions

The paper conducts an empirical analysis and detects for convergence trends, in per capita business tourism spending terms, among the Eurozone countries. The paper employs the methodological approach of gaps' convergence clubs, and covers the period 2001-2018 (as well as the sub-periods 2001-2010 and 2010-2018). The findings of the paper point to clear trends of convergence. Such findings indicate that business tourism seems to alleviate spatial externalities in the Eurozone economic space. Of course, such an indication is subject to the condition that domestic economies are able to reap the benefits of business tourism (Webster and Ivanov, 2014).

The findings of the paper call for a set of well-targeted and carefully-designed policy interventions focusing on promoting – and reap the benefits of – business tourism. Convergence analyses (e.g. Khan, 2018; Pshenichnykh *et al.*, 2020), deeply, assist the efforts to (further) understand whether – and to what extent – business tourism strategies are proved to be suitable to generate positive results, not only in absolute but also in relative terms. In an era of severe competition and volatile market conditions, the paper helps on developing a broad and comprehensive understanding on the issue, providing insight to both theory and policy-making. Of course, future research, and possibly at the sub-national level, may shed more light on the issue. To this end, the paper aspires to create the path.

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