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Comparative advantage, tourism

Jie Zhang[1] and Camilla Jensen[2]
[1]Centre for Regional and Tourism Research, Nexø, Denmark
[2]Institute for Marketing & Management, University of Southern Denmark, Odense M, Denmark

The principle of comparative advantage was originally introduced by David Ricardo as a response to Adam Smith's principle of absolute advantage. Most of people and countries are not the absolutely best in the world at anything, but this does not prevent them from producing and engaging in trade, hence the principle of comparative advantage.

Some scholars use competitiveness and comparative advantage interchangeably, whereas some insist on a difference between them. For example, whereas "comparative advantages constitute the resources available to a destination, competitive advantages relate to a destination's ability to use these resources effectively over the long-term" (Crouch and Ritchie 1999:143). In other words, comparative advantage relates only to factor endowment or what is given by nature to each country, while tourism competitiveness may have a multiplicity of sources, including the effectiveness of suppliers, the presence and qualities of infrastructure, the ability of a ▶ destination to deal with sustainability, and the like. Hence, there is a link between a country's broader development goals and its ability to gain competitive advantages in an ▶ industry such as tourism (Crouch and Ritchie 2012). Comparative advantage is thus more likely to derive from price competitiveness and the relative abundance of natural resources such as sun, sea, and sand.

More recently, some scholars have suggested that competitiveness and comparative advantage may be two entirely different things from an applied perspective (Jensen and Zhang 2013). They argue that the two terms simply provide different perspectives on a country's relative trading position in an international comparison, believing that this is what David Ricardo really wanted to communicate when he introduced the concept of comparative advantage.

Islands are good examples of a place that holds few absolute advantages (including low prices). But because there are few other activities they can compete in, they might hold comparative advantage in tourism. Jensen and Zhang (2013) applied this distinction to tourism using the following measure of comparative advantage for country i specific to tourism exports:

$$CA_i = \frac{Arrivals_i / Arrivals_{World}}{Population_i / Population_{World}}$$

Using this measure, it is the lucrative islands (such as Macau, Aruba, and ▶ Palau) on the border of development that hold comparative

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advantage in tourism, whereas places that hold absolute advantages, such as ▶ Turkey and ▶ France, are more often the larger countries centrally located in relation to tourism-generating markets. They own natural and/or created endowments that favor this industry. Countries with absolute advantages are also often competitive on price.

See also ▶ Competitive advantage, ▶ infrastructure, ▶ island tourism, ▶ sustainability.

References

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