

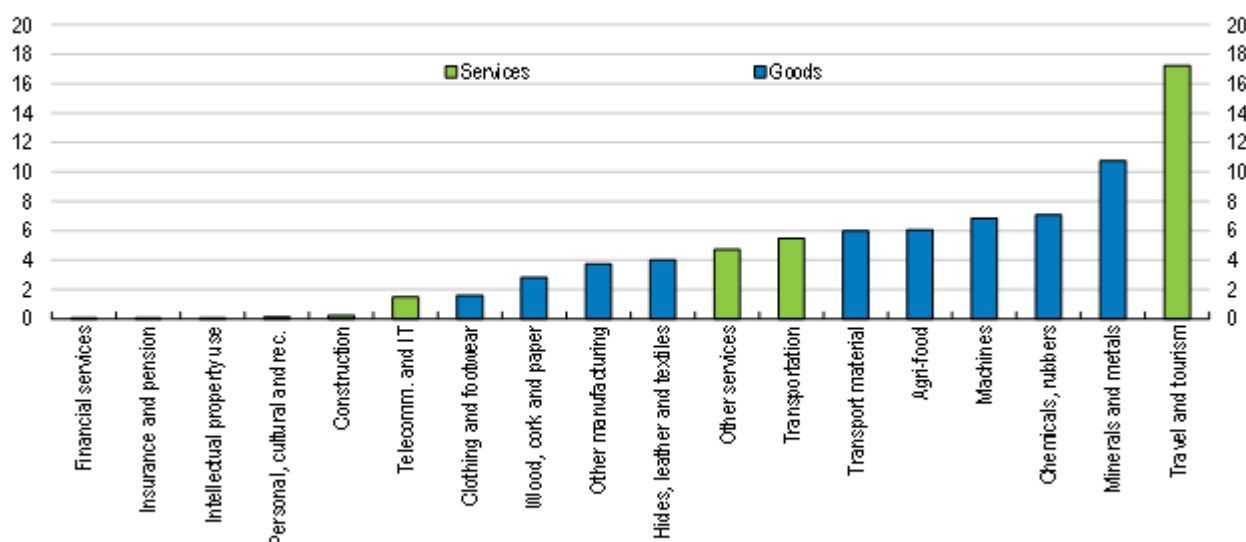
Will the tourist flocks keep landing in Portugal?

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Portugal's export performance has been impressive, sustaining the economy through years of weak domestic demand in the wake of the banking and sovereign debt crisis. As discussed in the 2019 OECD Economic Survey of Portugal, part of the improvement in exports has been due to a sustained expansion of the tourism industry. Over one-fifth of the growth in exports between 2009 and 2017 was directly attributable to tourism, with other closely related sectors such as transportation also having a strong positive effect (Figure).

Tourism has accounted for a large share of Portugal's recent export growth

Contribution to total export growth over the 2009-2017 period, percentage



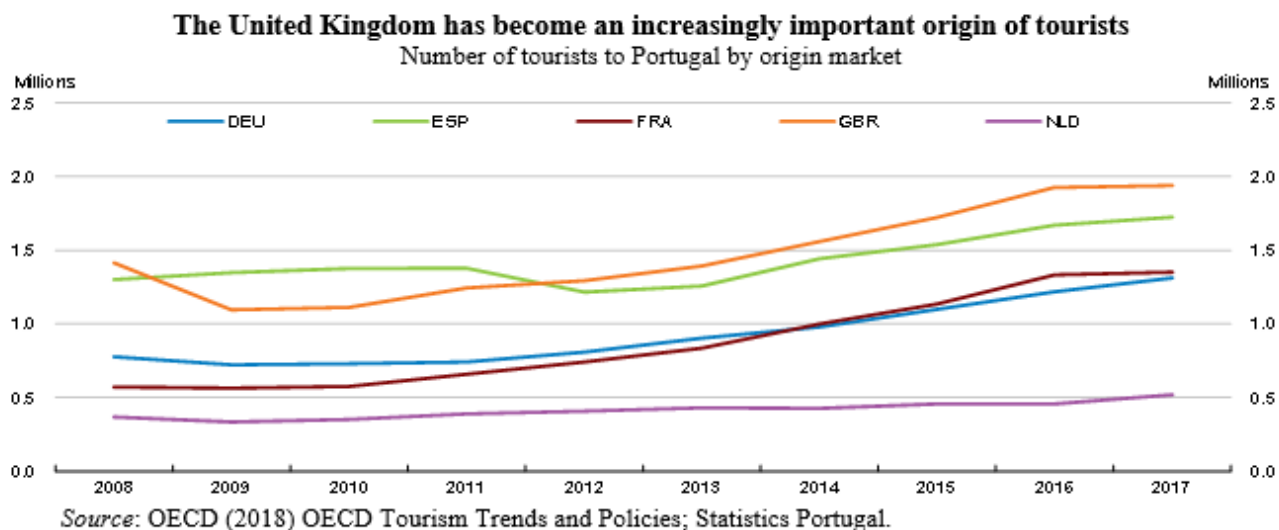
Source: Bank of Portugal, OECD calculations.

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Some signs of diversification in Portugal's tourism sector bode well for its durability over the medium-term. Since 2009, the age profile of tourists in Portugal has gradually broadened, with the proportion of tourists aged above 64 almost doubling. Tourists are increasingly visiting new parts

of Portugal outside the traditional tourist hubs and the concentration of the country of origin of visitors has slightly declined. However, since 2009, there has been a notable increase in visitors from the United Kingdom, with British visitors having now overtaken Spaniards as the main tourists in the country (Figure).



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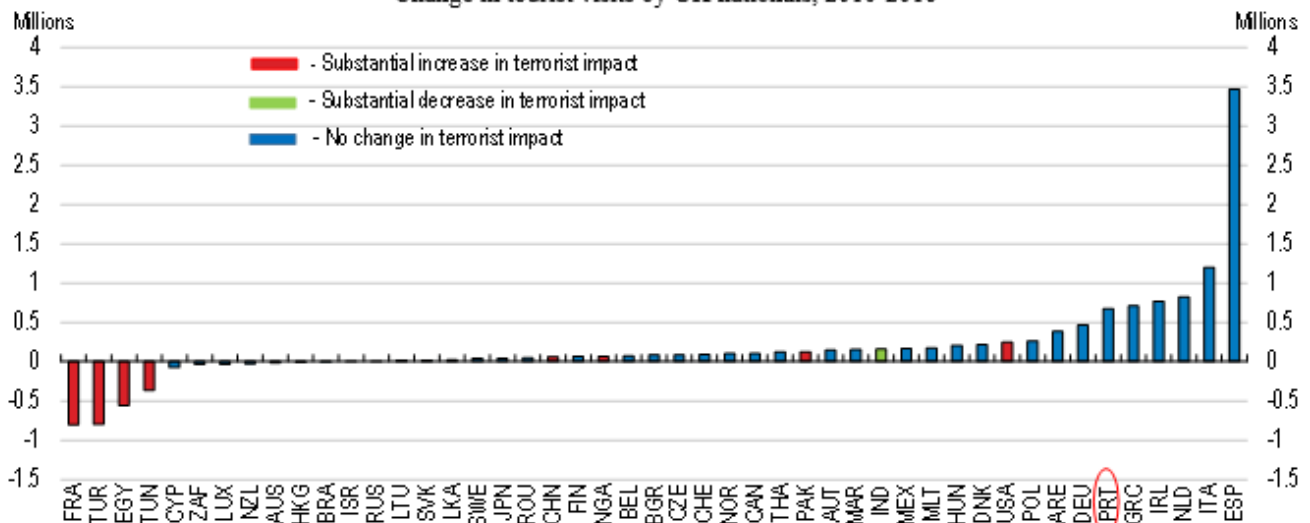
One factor cited for the pick-up in tourist flows to Portugal has been heightened perceptions of security risk in competitor markets. Focusing on German tourists in the early 2000s, Ahlfeldt, Franke and Maennig (2015) highlighted the potential for terrorist activities in a destination country to prompt tourists to substitute towards other similar locations they perceive to be more safe.

Data on the destination of outbound tourists from the United Kingdom does signal that recent tourist flows have been sensitive to terrorist events (Figure). The decline in United Kingdom tourists between 2010 and 2016 to countries that faced an increased impact of terrorism such as France, Turkey, Egypt and Tunisia coincided with a rise in travellers to Portugal and some other southern European countries such as Spain,

Italy and Greece.

Increased security risk in some destinations appears to have discouraged some tourists

Change in tourist visits by UK nationals, 2010-2016



Note: A "substantial increase in terrorist impact" is defined as an increase of at least 30% in the number of terrorist-related deaths in the country in the 2011-2016 period compared with the 2005-2010 period and an absolute increase of at least 100 terrorist-related deaths. Similarly, a "substantial decrease in terrorist impact" is defined as at least a 30% decline in terrorist related deaths and an absolute decrease of at least 100 terrorist-related deaths over the same period.

Source: Office for National Statistics, Global Terrorism Database.

StatLink  <http://dx.doi.org/10.1787/888933911915>

<http://dx.doi.org/10.1787/888933911915>

OECD (2019), OECD Economic Surveys: Portugal 2019, OECD Publishing, Paris

Given these patterns, the capacity for a decline or stabilisation in perceived security risk elsewhere could lead some of the tourist flows redirected to Portugal to reverse. One illustrative example is the recent case of Turkey. There was a notable drop in tourists from the United Kingdom to Turkey in 2012 and 2013, coinciding with a rise in terrorist activities. However, an appeasement in such activity over the following few years was met with a stabilisation of tourist flows in 2014 before visitors increased by more than 10% in 2015.

Portugal's recent tourism boom has

been exceptional. However, the uncertainty of the impact of Brexit on future flows of UK travellers combined with the potential for security concerns in competitor markets to fade, suggests the authorities should plan for the possibility that some of the recent tourism boom is unwound.

As part of the government's *Tourism Strategy 2027*, diversification has been identified as a major priority, which is welcome. However, the government should also pursue policy settings that promote the growth of other export sectors in the economy outside of tourism. For example, existing strict regulations in professional services harm the growth of exporters that use such services as intermediary inputs. As do those regulations and practices that hold back competition in the ports. In addition, innovation potential across export sectors could be better promoted through increasing the capacity of intermediary organisations that focus on boosting the innovation collaboration of small and medium enterprises with other firms and research institutions.

Selected References

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