



# RESEARCH IN BRIEF

## An analysis of the dynamics of the tourism industry in Brazil: challenges and recommendations

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### Abstract

**Purpose** – The main purpose of this study is to present an analysis of the dynamics of the tourism market in South America and, more specifically, in Brazil, by measuring and analyzing the growth in tourists' arrivals to the region between 1998 and 2002.

**Design/methodology/approach** – This study uses the shift-share technique that decomposes the growth of the number of tourists into various components, enabling in-depth diagnosis of the dynamics of the sector in the period.

**Findings** – Despite the fact that Brazil is the leading tourist destination in South America, the study shows that Brazil has been losing ground in relation to some of its neighbors in South America. The study also revealed the impact of 9/11 and Argentina's crises and the growing participation of the European tourist in Brazil.

**Originality/value** – Despite some limitations, this technique has the advantage of focusing on a region scarcely studied in mainstream tourism researches and offering Brazilian policy-makers a new methodology such that they may take advantage of emerging opportunities and create competitive advantages for the country.

**Keywords** Tourism, Public policy, Brazil, South America

**Paper type** Research paper

### Introduction

Tourism is a sector experiencing major growth in terms of the global economy. Ever since the 1950s when international travel became accessible to the public in general, the number of tourists has been growing at an average rate of 6.8 percent per year. Estimates are that in 2005 the number of incoming tourists totaled 808 million. The trends for the future of the tourism industry indicate that by 2020 the number of incoming international tourists will be in the order of 1.6 billion (World Tourism Organization, 2006). According to World Travel and Tourism Council it is expected that the tourism will contribute 3.6 percent to global GDP in 2006 (World Travel and Tourism Council, 2006).

In view of the importance of the tourism sector, this study seeks to contribute with another potentially useful technical analysis tool for evaluating the sector. The objective is to provide policy makers in Brazil with a systematic approach towards



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managing their tourism efforts and activities. The article concludes with a series of recommendations for public policies in the area of tourism based on the discussion of results of the model integrated with the results of other studies and research.

### **The tourism industry in South America**

In terms of economic impact, tourism is a recent phenomenon in South America. With the exception of the 1960-1970 decade, the growth of tourism on the American continent (North, Central and South America) was always below the world average (World Tourism Organization, 2005). Factors such as the great distance from the major tourist-generating markets, the timidity of the regional economies, as well as the prolonged economic recessions, had a negative impact on the development of regional and intra-regional tourism (Santana, 2000).

Only in the 1990s South America emerged as a potential tourism destination, with Brazil, Argentina and Chile as the main players in the region. Factors like the transition to democracy, the consolidation of economic blocks, the growth of commerce with the major world markets and the improvement of basic public services, contributed positively to the development of tourism in the region. In conjunction with this the opening up of the markets and massive investments in infrastructure facilitated the flow of tourism to traditional and non-traditional destinations in South America (Gouvêa, 2004; Santana, 2000).

Even though the growth in the Americas has followed the worldwide trend, tourism has an unrealized growth potential in the majority of South American countries. Only recently some countries have adopted tourism as a strategic alternative. In accordance with projections of the World Travel and Tourism Council (WTTC) for 2006, it is expected that US\$163,362 billion will be generated in economic activity (total demand) by the tourism industry. An impact of 7.2 percent on the GDP of Latin American countries is expected, as well as the generation of 12.1 million jobs, namely 6.9 percent of the total (World Travel and Tourism Council, 2006).

### **The tourism industry in Brazil**

With respect to Brazil, it is possible to affirm that tourism is a relatively important economic activity, with great future growth potential. The contribution to GDP of the tourism industry in Brazil is estimated at 2.8 percent for 2006 (US\$25.3 billion), increasing in nominal terms to US\$ 36 billion (2.7 percent of GDP) by 2016 (World Travel and Tourism Council, 2006). The importance of the tourism sector in Brazil becomes more apparent when one evaluates its social impact, especially in generating jobs. Estimates of the Ministry of Labor and Employment reveal that over the 2003/2005 three-year period, the economic activity of tourism generated 560,000 new jobs (Embratur, 2006). For 2006, estimates of the total number of job positions generated by the tourism industry are 5.5 million, in other words 6.4 percent of the job total. By 2016, the total should reach approximately 9 million job positions, corresponding to 6.6 percent of the total (World Travel and Tourism Council, 2006).

Despite the fact that Brazil is the largest Latin American country with incomparable cultural and ecological exuberance and diversity, both the public and private sectors have underestimated tourism. The analysis of historical data on tourism in Brazil shows that it was only in the middle of the 1990s that the tourism industry really took

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off. The year 2000 saw the highest number ever recorded in terms of tourist arrivals in the country with 5.3 million international arrivals.

For Brazil, Argentina is the main source of incoming tourists with 922,484 tourists, followed by the USA (705,997), Portugal (336,988), Uruguay (309,732), Germany (294,989), Italy (276,563) and France (224,160) (Embratur, 2005a, b). Due to the economic crisis that Argentina suffered in 2002, its participation in the influx of tourists to Brazil fell from 32.8 percent in 2000 to 19.24 percent in 2004. However, the country is still in top place among the main tourist groupings entering Brazil. With respect to the average expense per capita/day, the average spending by international tourists was US\$87.99 and the average length of stay was 13.5 days (Embratur, 2005a, b).

Research conducted into the image of the country abroad confirms the fact that the attraction of Brazil as a tourist destination is based on its natural beauty and exoticism, though the negative perceptions regarding social and economic conditions of the country, as well as the lack of security, coexist with this positive image. However, research indicated that the respondents do not have a good perception regarding the social and economic conditions of the country and, furthermore, are worried about security issues when visiting the country (Rezende-Parker *et al.*, 2003).

### The study

This study uses a version of the shift-share technique, developed by Esteban-Marquillas (1972), to examine the characteristics and dynamics of the tourism industry in South America. The purpose is to measure and analyze the growth in tourists arrivals to South America (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay e Venezuela) from three different regions of the world (Europe, Americas and residual region which includes Asia, Africa, the Middle East and South Pacific countries) between 1998 and 2002. The shift-share technique decomposes the growth of the number of tourists into various components that can explain its behavior, enabling in-depth diagnosis of the dynamics of the sector in the period.

The selected countries in South America were chosen to compose the benchmark because they share some significant similarities in terms of potential attractiveness and image. Thus, each country's performance can be compared to the collective performance of the benchmark. The data for tourist arrivals are compiled from the *Statistical Yearbook*, published by the Statistical Division of the United Nations Department of Economical and Social Affairs (United Nations, 2005).

### Results

The main results of the study are the following:

- Brazil is the country that receives the highest number of international tourists in South America (over 30 percent), followed by Argentina (approximately 20 percent), Uruguay (11 percent) and Chile (11 percent).
- As for the tourist-generating countries to South America, the Americas (over 70 percent) and Europe (23 percent) continue to be the leading tourist exporters.
- Between 1998 and 2002 there was a marked reduction in the number of international tourists, representing a drop of over 18 percent in the number of tourist arrivals to South America, mainly because the 9/11 and the political and

economic instability of some of the countries in the region, especially Argentina, Colombia and Venezuela.

- Despite the global decrease of incoming tourists to South America, the number of European tourists increased during the period under consideration (5 percent).
- With respect to Brazil, its global performance fell well below expectations and it lost market share, losing more than a 1 million tourists (– 21.5 percent).
- The foregoing analysis made it clear that this reduction was due to a weak performance in the Americas, which was partly offset by a good performance from Europe.
- The results indicate that the number of European tourists visiting Brazil increased by 235,503 (an increase of more than 20 percent). According to the analysis, Brazil enjoys a competitive advantage in attracting European tourist and it is specialized in this region.
- The results also revealed a marked reduction of more than 1.2 million tourists from the Americas to Brazil, which can be explained due to: crisis in the main tourist-generating countries like the US (9/11) and Argentina (economic crisis); a competitive disadvantage in attracting American tourists; and a non-specialization in this market.
- Ecuador (28.1 percent) and Peru (18.3 percent) were the only two South American countries that increased the number of tourist arrivals during the period. These countries present competitive advantages in relation to the remaining countries of South America in terms of attracting tourists.
- Argentina also had a good performance, despite a slight decrease in the number of international tourists (– 5 percent), though compared to the global growth rate of the benchmark (– 18.2 percent) this can still be seen as a highly positive result. Argentina possesses a strong competitive advantage in attracting American tourists and a competitive disadvantage in the European market.
- Bolivia, Chile, Colombia and Paraguay produced a consistent performance in terms of the market share they possess. Of these countries, Chile has a disadvantage in the only region in which it is specialized (the Americas) and advantages in the regions in which it is not specialized.
- Uruguay (– 41.7 percent), Venezuela (– 37 percent) are the countries that performed worst, posting a decline in the growth rate of more than double the reduction of the benchmark (– 18 percent). Both of them had competitive disadvantages in attracting tourists from all regions.

### **Conclusions and recommendations**

Tourism is a strategic sector for Brazilian development as it offers opportunities to be seized, while at the same time presents challenges to policy-makers in terms of adequate conception and implementation of tourism strategies. The results of this study enable the following conclusions about the Brazilian case.

Firstly, the study corroborated the evidence that the stage of development of the tourism sector is closely linked to the degree of socio-economic development of the country. It is no coincidence that the major economic players in South America (Brazil, Argentina and Chile) are also the main host countries for tourists in the

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region. However, the situation is problematic, particularly in Brazil, due to the difficulty in attracting private investments in infrastructure sectors. The situation is even more problematic in comparative terms, in view of the fact that countries like Chile have produced more consistent results in terms of attracting investments to infrastructure, showing higher competitiveness potential in the medium and long-term.

Secondly, the study revealed the impact of 9/11 and Argentina's crises in the growth rates for the sector. The impact was felt more strongly in Brazil since the country still has a strong dependency on tourism from the Americas. However, the study showed that when compared with the superior performance of other South American countries, Brazil faces strong competition, specifically from Argentina.

Thirdly, research of the image of Brazil abroad highlights the existence of a negative perception about the social and economic conditions, as well as the lack of security, though this perception does not prevail for countries like Argentina. This image factor, associated with others such as the high cost of domestic transport and the inability to distinguish what makes Brazil different in relation to other Spanish-speaking countries may have an influence on the competitive disadvantage of Brazil in relation to the Americas.

Finally, an important aspect gleaned from the study is the growing market share that Brazil is conquering in relation to attracting European tourists. Other studies show that the main European countries that send tourists to Brazil are Portugal, Germany, Italy and France, while also highlighting the fact that the European tourist in general ranks in first place in terms of average length of stay in the country. While acknowledging that the study shows that Brazil has a competitive advantage and specialization in this market, it is important to stress that there is still enormous growth potential in the European market, which is characterized by enormous cultural diversity.

As regards recommendations for public policy shapers in the area of tourism, this study proposes:

- Formulation of long-term strategies seeking to dynamize the competitive advantages of the country and its specialization.
- Promotion of in-depth image studies in order to formulate customized policies to attract tourism to the appropriate niches in the tourism market.
- Monitoring world tourism trends, such as ecotourism.
- Focus on the European market, remembering that the cultural differences of European countries require customized strategies in each of the target countries.
- Investments in tourist regions that can (re)create competitive advantages and specialization with relation to Latin American countries. For example, this can be achieved by attracting Argentinean and Uruguayan tourists to the south of the country.
- Establishment of partnerships and joint ventures with private partners for promoting new tourism products, such as ecological tourism, rural tourism, adventure tourism, historical tourism and cultural tourism
- Promotion of advertising campaigns coordinated by the public sector, in cooperation with the sectors that directly or indirectly benefit from tourism.

- Concerted effort between universities, the private sector and the government in order to capacitate human resources to the tourism industry.

Lastly, in order to promote tourism in an integrated way, it is necessary to plan the development in an integrated manner and find coordinated solutions that continually strive to rethink the activities and national products that Brazil can offer to foreigners.

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