

**TOURISM AND REGIONAL
COMPETITIVENESS: THE CASE OF THE
PORTUGUESE DOURO VALLEY**

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Abstract

Using a framework that articulates the most important factors of competitiveness to evaluate the regional economic strategies, and applying this framework to the Portuguese NUT III Douro, we show that this region is relatively weak in terms of internal linkages, subject to ageing and out-migration and lacking in innovation and entrepreneurship, apart from being isolated from mass markets. With these characteristics, to define only the priority to tourism is clearly insufficient for convergence. So, after assessing the results of such strategy, the paper ends with a conclusion that is extensive to other regions: the lagging regions, which are trying to converge with the more developed ones based on tourism, cannot only rely on a combination of environmental resources and marketing, but have to attend to other factors of competitiveness as well.

Keywords: *Douro Valley, environmental resources, regional competitiveness, tourism.*

JEL Codes: Q25, Q28, R19, R58.

TOURISM AND REGIONAL COMPETITIVENESS: THE CASE OF THE PORTUGUESE DOURO VALLEY

1. INTRODUCTION

To respond to current challenges, such as apparent productivity gaps, competition for mobile investment, and rapid adoption of new technology, scholars and policy makers across the world claim that countries must become more “competitive”. Increasingly, the concept of competitiveness is extended to the regional level, if regions need to keep their economic position or if they are lagging in comparison with other industrial or developing regions. Since skilled labour and investment move away from “uncompetitive” regions towards more competitive ones, a competitive region is defined as one that can attract and preserve successful firms and keep or increase standards of living for the region’s inhabitants.

In the past, regional development policy has tried to reduce regional disparities by supporting wealth-generating economic activities in regions by means of large-scale infrastructure development and by attracting inward investment. However, those policies have failed to reduce regional disparities significantly and have not been able to help individual lagging regions to catch up, despite the allocation of significant public funding. The result is under-used economic potential and weakened social cohesion. The search for a new approach to regional development has led to an emphasis on regional "assets" as the source of firm competitiveness, encompassing not only physical infrastructure but also other less tangible factors.

The extension of the competitiveness concept to the regional level is recent but it is having a major influence on the direction of regional development policy. Regional policy often focuses on “lagging” regions, including regions undergoing industrial restructuring and geographically peripheral regions. Regional development is a broad term but can be seen as a general effort to reduce regional disparities by supporting wealth-generating economic activities in regions.

So, recent literature on regional development, aware of a new approach to regional development is emerging; one that promises a more effective use of public resources and significantly better policy outcomes. This involves a shift away from redistribution and subsidies for lagging regions in favour of measures to increase the competitiveness of regions. Some key features of this new

approach to regional development include: i) a strategic concept or a development strategy that covers a wide range of direct and indirect factors that affect the performance of local firms; ii) focus on endogenous assets, and less on exogenous investments and transfers; iii) emphasis on opportunity rather than on disadvantage.

Given the above considerations, the main aim of this paper is to deepen the understanding of regional strategies and to assess how Portuguese regions are reacting to the challenges of globalisation and changes in production systems, and within this, what they are doing to profit from their current regional competitive advantages. Specifically, the study will focus on strategies for developing regional specialisation in tourism, focusing on one region: the Douro Valley. The reasons for focusing on this case were the tourism potentialities highlighted by regional and national authorities and the particular characteristics of the region. Accordingly, we begin by highlighting the role of environmental resources in development and the specificities of tourism. In section 3, we make a brief description of the region and their potentialities. Section 4 presents a framework to assess the regional competitiveness. Section 5, deals with the way some objectives for tourism in the Douro Valley are attained. Finally, section 6 presents some concluding remarks for policy guiding and future research.

2. THE ROLE OF ENVIRONMENTAL RESOURCES IN DEVELOPMENT

2.1 Environmental resources

As explained elsewhere (Pessoa and Silva, 2007) both natural resources and cultural resources have deserved small attention by the economics mainstream. As alleged, following Ricardo (1817), economists tend to see natural resources as a constraint rather than as a blessing and only recently did the potential positive effects of cultural resources begin to be recognized. On the one hand, cultural assets consist of both immaterial elements such as traditions, norms and values that compose the “distinctiveness of a group” and symbolic elements that play a function of “meaning”, often grouped in the concept of “heritage” (Bessière, 1998; Ray, 1998). On the other hand, they consist of physical objects, like art objects and other human built patrimony, including for instance human built rural or urban landscape. Also, it was emphasized the interaction between tourism, entrepreneurship and environment (Lerner and Haber, 2001) sometimes abridged in the concept of “local cultural systems” (Ray, 1998) and so, environmental resources

can be important to build regional competitiveness advantages (Pessoa and Silva, 2007) and regional innovation strategies. At the same time, it has been argued that the existence of environmental resources is not a panacea to the catching-up of lagging regions. The use of environmental assets in this process needs to be rationalized in a dynamic way.

In fact, based on a combination between natural and cultural resources, several laggard regions have tried to promote successful evolutions driven by tourism and related activities. And there are several studies about entrepreneurial achievements in mountainous (Skuras *et al.*, 2005) and other rural areas (North and Smallbone, 1996; Dinis, 2006). However, such cases are usually analysed from the point of view of the success of small and micro firms and so, are shedding little light on the problem of regional competitiveness. In fact, the success of some micro firms doesn't mean that the region is succeeded. On the other hand, there is always the danger of interpreting the abundance of environmental resources as if they have given an advantage that is not threatened by other regions. Furthermore, policy makers often trace policy based on the inappropriate concept of comparative advantage, seeing competitiveness in a static manner, instead of seeing it as a dynamics of competitive or constructed advantages¹. This way of looking at natural and cultural resources forgets the basic fact that in the laggard regions, apart from other failures, there is a lack of capability to use innovation in order to make a more productive use of inputs.

2.2. Tourism and regional competitiveness: Specificities of tourism

It is not easy to define tourism. Is it an industry, or a sector? The broad concept of tourism includes various jobs and industries, such as airline, rail, cruise, accommodation and food service industries. It involves tour wholesales, retailers, a variety of attractions, and a wide range of other private and public services and facilities. It is difficult to classify some services as tourism because non-tourists also use such services. Hunter and Green (1995) describe tourism as a 'nebulous phenomenon, characterized by an amalgam of fragmented trades, organisations and activities'. These characteristics make it difficult to assess who the ultimate beneficiaries of tourism are because whereas the social costs (congestion, erosion, environmental degradation,

¹ For a distinction between competitive advantages and the related concepts of comparative and constructed advantages see Asheim (2006).

etc.) are internal to the region, the private and social benefits can be partially external (Pessoa and Silva, 2007).

In this paper we use the term ‘tourism’ in a broad sense to represent the mix of services and resources used by tourists. Tourism relies directly and indirectly on a wide range of environmental resources. Landscape, climate, environment and culture are important tourism assets. The specific combination of these resources is a distinctive mark among regions, and so it can constitute a potential advantage when competing with other regions.

The positive impacts of tourism on regional development, and particularly in areas where there are few alternative economic activities (Hall and Boyd, 2005), are widely acknowledged (Hall and Jenkins, 1998). First, tourist spending in accommodation, food and beverage, and shopping are direct revenue for regions, with consequent positive effect on employment. Also, if tourism lessens unemployment because it increases the demand for labour, there will be a net gain as long as the price of this labour is higher than the cost to the economy of making it available. Second, tourism requires the construction of collective (such as roads, water supply and sewage treatment facilities) and cultural infrastructures (museums, music halls, etc); and these infrastructures, as well as leisure facilities, contribute to the well-being of both tourists and residents. Third, interacting with people from different environments and with diverse traditions increases cultural level and enhances the capacity of understanding different cultures.

On the other hand, tourism can also have positive economic benefits or externalities over all the community, such as greater awareness of the environment and local culture, conservation of monuments and wildlife preservation (Tisdell, 1983, 1987) and so contributing effectively to rural development and diversification². Additionally, the economic use of environmental resources may employ other resources that are charged for, but which have a cost to the economy that is less than this amount because some are not previously fully employed. If new forms of resource exploitation are introduced, and new consumers are willing to pay more for the use of a particular natural or cultural asset than the rate at which the community currently values it, this is effectively a net gain to the community.

² However, this doesn't mean that tourism represents a panacea to all the problems that affect the rural areas (see, Hoggart *et al.*, 1995, and Hall and Jenkins, 1998; Hall and Boyd, 2005).

Generally, the tourism employs many young people and unskilled workers, which are the groups most affected by the long-term unemployment. So, in an economic environment characterized by high unemployment, the labour intensive character of tourism and the strong relationship between the characteristics of the long-term unemployment and the nature of the tourism labour market, will turn the employment benefit from tourism growth likely to be significant³.

However, as other investments based on the use of environmental resources, investments in tourism are typically interdependent. They can produce positive externalities. For instance, in rural tourism each investor will benefit from the fact that other sites or farms are available in their region, because this will increase the attraction of the rural location for external visitors and this positive effect will be as large as their positive impact on landscape.

But, due to the above-mentioned interdependence, investments based on tourism can also produce negative externalities. Tourism at any destination is closely interlinked with the host community and its way of life and has a symbolic dimension that differentiates each destination. So, individual projects that do not fit with cultural or symbolic values will have negative effects that will affect all the others. But apart from this, tourism may also impose various pressures on the host community (Buhalis and Fletcher, 1995), particularly during growth phases (Brown and Giles, 1994).

Recognizing the above positive effects, the Portuguese Government has chosen Tourism as a strategic sector in the Portuguese economy. This choice is materialised in the Tourism Development Plan, which determines the implementation of a varied range of measures and projects to eliminate certain difficulties that previously threatened the development of traditional tourist destinations, and the use of tourism to transform some “lagging” Portuguese regions into tourist destinations.

The Douro Valley is one of the “lagging” Portuguese regions, which is promoting tourism by implementing several projects through different channels including infrastructures and marketing, with the often proclaimed objective of transforming Douro in the fourth Portuguese tourism

³ However, there is not a straightforward effect of increased tourist expenditure on the employment level of the region. Apart from the possibility of resources being imported from outside to meet the increased demand for tourism goods and services, other factors come into play. For instance, the extents to which unemployed resources within the economy are taken up by the tourism industry will affect the magnitude of the net increase in employment, so as the different level of efficiency of underemployed resources in other industry sectors, and in the tourism industry.

destination. In the remainder of the paper we'll begin by making a short description of the Douro Region and their tourism potentialities, next we construct a concept of regional competitiveness, and based on it we'll highlight some problems that arise when one tries to base the catching up of Douro only on tourism.

3. BRIEF DESCRIPTION OF THE DOURO VALLEY AND ITS POTENTIALITIES

The Douro Valley partially corresponds to the NUT⁴ III Douro. It spreads over an area of 4,108.1 square kilometres, which corresponds to 4.62 per cent of the Portuguese Continental area, with a height situated between 50 and 1,416 metres and a resident population of 214,045 inhabitants (221,853 in 2001 and 238,695 in 1991). The NUT Douro takes in 19 municipalities. It is a region with a low population density (Table 2); it produces among other goods mainly electric power, common wines, and the most representative brand name of Portugal, the Port Wine.

Table 1.
NUT Douro: Area and population

	Area		Population (31.12.2006)	
	km ²	%	n.º	%
Portugal	92 090.1	103.51	10 599 095	104.83
Continente	88 967.1	100	10 110 271	100
Norte	21 286.4	23.93	3 744 341	37.04
Douro	4 108.1	4.62	214 045	2.12

Source: INE (2007a).

The valley is amazingly beautiful with the hills falling steeply down to the water's edge becoming more and more sparsely populated and wild the further inland one travels, with more of the land being given over to terraces of vines and, to a lesser extent, olive groves. The colour of the land changes throughout the year as the vines mature. February and March also see the almond trees in blossom, particularly in the upper reaches, creating blankets of pink-white everywhere.

In spite of their beautiful environmental resources, and of some significant improvements in accessibilities, it is one of the five poorest Portuguese regions in social and economic terms, which is made apparent by its low level of purchasing power (indicated by the per capita

⁴ Nomenclature of Territorial Units for Statistics

purchasing power by municipality) and its decreasing population. The region that already lost 7.1 per cent of its resident population, in the last decade of 20th century, goes on losing lots of population, as is visible from the analysis of Table 2.

Table 2.
NUT Douro, purchasing power and demographic indicators

	Variation of population 1991-2001	Purchasing power 2005	Population density 2006 (Inhab/km ²)	Crude Rate of Increase 2006	Crude Rate of Natural Increase 2006	Crude Birth Rate 2006	Crude Death Rate 2006
Portugal		100	115.1	0.28	0.03	10.0	9.6
Continente		100.52	113.6	0.28	0.03	9.9	9.6
Norte		85.45	175.9	0.18	0.13	9.6	8.3
Douro	-7.1	67.52	52.1	-0.69	-0.36	8.2	11.8
Alijó	-12.3	50.96	46.1	-0.73	-0.51	6.7	11.8
Armamar	-13.7	49.21	61.6	-0.72	-0.47	6.5	11.2
Carraceda de Ansiães	-17.2	48.60	25.2	-1.53	-0.89	6.5	15.4
Freixo de Espada à Cinta	-14.9	47.26	16.1	-0.74	-0.99	5.6	15.5
Lamego	-6.9	77.77	160.1	-1.09	-0.32	8.9	12.1
Mesão Frio	-10.7	56.19	169.7	-1.23	0.09	10.5	9.7
Moimenta da Beira	-10.1	59.37	50.1	-0.13	-0.27	7.7	10.4
Penedono	-7.7	50.51	25.0	-0.63	-0.83	7.4	15.8
Peso da Régua	-12.6	73.80	184.4	-1.39	-0.36	8.7	12.3
Sabrosa	-6.0	52.13	42.8	-0.85	-0.53	8.3	13.7
Santa Marta de Penaguião	-11.7	51.90	119.1	-0.83	-0.59	5.9	11.8
São João da Pesqueira	-9.7	50.97	30.8	-0.83	-0.24	8.7	11.2
Sernancelhe	-11.3	48.44	26.7	-0.47	-0.51	7.5	12.6
Tabuaço	-14.1	49.19	47.5	-1.25	-0.84	7.0	15.5
Tarouca	-13.3	56.60	83.5	0.43	0.22	11.2	9.0
Torre de Moncorvo	-9.6	53.18	17.2	-1.50	-1.12	6.0	17.2
Vila Flor	-10.4	53.32	28.7	-0.82	-0.73	6.3	13.6
Vila Nova de Foz Côa	-4.4	53.74	20.4	-0.60	-0.58	7.1	12.9
Vila Real	7.9	96.09	133.1	-0.10	0.01	9.4	9.3

Source: INE (2007a; 2007b).

In fact, the rates presented in table 2 indicate that NUT Douro is a depressed region: not only the rate of natural increase of population is negative, indicative of an aged population, but migration balance is also negative, and of similar magnitude, indicating the low attractiveness and the repulsion of the region.

Why does this region go on to be poor and reacts so slowly to policy instruments?

This intriguing question has obtained, among others, three most common answers. First, there is the so-called “political overlook”, translated in the insufficient provision of public investment,

which is mandatory to cope with the traditional problems of the region. It is an objectionable argument, because from the beginning of 1980s some territorial development programs have directed towards the region's private and public investments above 2,500 million euros. Second, there is the alleged "enclave" character of the Douro economy: the extracting logic of predominant economic activities, which has transferred to the exterior of the region the profits generated inside it. But, the exterior investors have had an historical fundamental role in the Douro development. A significant part of the success in the wine sector is owing to foreign investment. Third, there is the sleeping or insufficient entrepreneurship capacity of local and regional agents, materialised in inability to take profit of the dormant potentialities of region.

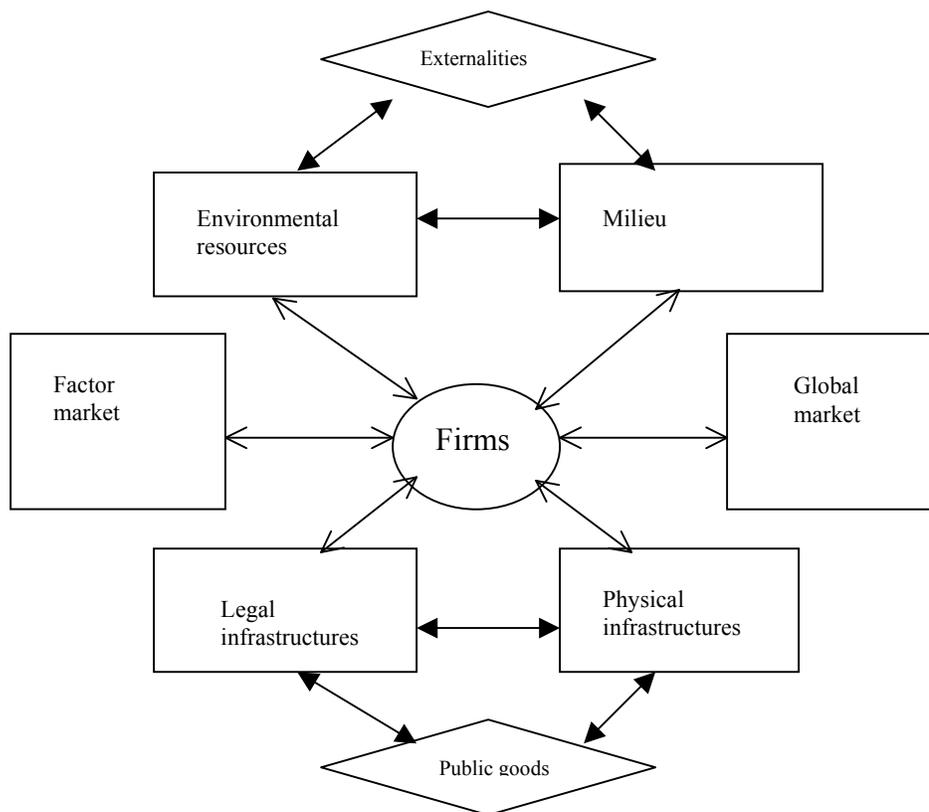
Although these latter two reasons, as an expression of the so-called "natural resources curse", may have some economic foundations, because the Douro Valley economy is dependent on natural resources and above all on one single product, wine; and the slight diversification recently occurred with the establishment of some small individual or cooperative firms in olive oil production haven't changed the dependence on natural non-renewable resources. However those explanations imply an old fashioned conception of development, based on redistribution and subsidies for lagging regions, and so they overlook some important aspects about crucial factors in regional competitiveness.

4. REGIONAL COMPETITIVENESS

The competitiveness of a region is its capacity to create/attract and to maintain competitive firms, which are able to fulfil the population's expectations, with the resulting convergence of levels of efficiency/development and wage levels both in tradable and non-tradable goods and services sectors. So, the concept of regional competitiveness makes the competitiveness of firms mandatory, which implies the submission of firms to the international competition in order to construct competitive advantages. But, our concept of regional competitiveness is not limited to the competitiveness of firms, it covers a wide range of direct and indirect factors that affect the performance of local firms, in line with the recent literature on regional development, which promises more effective use of public resources, and significantly better policy outcomes, than the traditional approach.

Figure 1 highlights a model of regional competitiveness that entails the above ideas. In this model we have firms, six focus areas and two main reasons for market failures: the externalities that arise from the environmental resources and from the milieu and the existence of public and semi-public goods, such as legal and physical infrastructures. Apart from the solution for these market failures, public intervention has limited capacity to affect regional competitiveness.

Fig. 1. Regional competitiveness



In figure 1, we give firms the central stage-position because they are the key players in regional competitiveness. Four main reasons explain why firms must occupy the central position: i) it is inside firms that the most important technological accumulation is done; ii) it is inside firms that innovation is used and tested in terms of profitability; iii) it is inside firms that incremental innovations appear and their utilization possibilities are tested; iv) it is inside firms that the

learning process (learning by doing, learning by using, learning by interacting) is done. So, the characteristics of firms must be the starting point of our analysis.

Table 3 evidences some key characteristics of the entrepreneurial function in NUT Douro. Not only the number of people employed by establishment is reduced (4.8 compared with 6.9 of the Norte region) but the proportion of establishments employing less than 10 persons is also higher (90 per cent vs. 86 per cent of the Norte). But above all there is a very low density of establishments (only 1.4 establishments by square kilometre). As already argued by Dinis (2006) in areas with such characteristics entrepreneurship is particularly difficult.

Table 3
Some indicators of firms by municipality, 2005

	Density of establishments	Proportion of establishments employing less than 10 persons	Proportion of people employed by establishments whose head office are situated in the municipality	People employed by establishment
	N.º/Km ²		%	N.º
Portugal	5.0	88	87	6.3
Continente	5.0	88	87	6.3
Norte	6.8	86	88	6.9
Douro	1.4	90	83	4.8
Alijó	0.9	91	79	3.9
Armamar	1.3	91	87	4.1
Carrazeda de Ansiães	0.4	95	88	3.9
Freixo de Espada à Cinta	0.2	91	94	4.8
Lamego	4.3	88	90	5.1
Mesão Frio	3.8	91	90	4.1
Moimenta da Beira	1.4	91	89	3.7
Penedono	0.4	98	80	2.2
Peso da Régua	6.3	88	78	5.2
Sabrosa	1.0	90	81	4.1
Santa Marta de Penaguião	2.3	92	90	3.4
São João da Pesqueira	0.8	89	74	4.5
Sernancelhe	0.6	92	92	3.6
Tabuaço	1.0	92	81	4.2
Tarouca	2.0	87	98	9.0
Torre de Moncorvo	0.3	92	79	3.6
Vila Flor	0.6	93	87	4.0
Vila Nova de Foz Côa	0.5	92	82	3.8
Vila Real	4.9	89	79	5.5

Source: INE (2007a).

Table 4 shows another characteristic of the Douro, which complements the above said: entrepreneurship is underrepresented in this territory. In fact, this Nut, which occupies 19.3% of

the area of the Norte region, has only 5.3 % of the number of their firms and only 1.76 percent of the number of firms of Continental Portugal.

Table 4
Number of firms by head office municipality and according to NACE-Rev. 1.1, 2006

	Total	A+B	C	D	E	F	G	H	I	J	K	M to O
Portugal	1 132 364	75 568	1 760	108 062	700	187 129	366 278	115 878	32 435	28 941	134 004	81 609
Continente	1 081 645	68 324	1 706	105 226	684	177 651	354 046	111 267	29 948	28 224	126 414	78 155
Norte	359 822	16 135	571	50 454	273	50 896	124 440	36 862	8 919	9 079	37 603	24 590
Douro	19 082	2 851	53	1 280	14	2 673	6 435	2 334	692	479	1 182	1 089
Alijó	1 163	232	0	98	0	134	357	162	52	21	59	48
Armamar	614	200	1	31	0	62	177	63	27	11	18	24
Carraceda de Ansiães	632	159	1	53	1	64	187	79	23	8	24	33
Freixo de Espada à Cinta	313	75	0	24	0	37	91	36	11	6	15	18
Lamego	2 351	262	2	138	1	411	875	256	58	81	141	126
Mesão Frio	364	52	0	22	1	62	119	42	10	7	20	29
Moimenta da Beira	1 054	145	2	62	1	132	446	119	38	13	46	50
Penedono	309	45	3	26	0	45	115	34	15	5	8	13
Peso da Régua	1 602	229	2	108	0	173	573	191	63	42	106	115
Sabrosa	556	132	2	34	0	82	160	56	30	11	30	19
Santa Marta de Penaguião	708	210	0	41	0	121	182	59	22	6	27	40
São João da Pesqueira	829	268	4	47	0	84	209	95	27	9	54	32
Sernancelhe	543	68	3	56	0	97	186	65	24	9	18	17
Tabuaço	546	87	1	27	0	74	196	65	35	13	24	24
Tarouca	653	53	1	45	0	120	244	68	21	31	45	25
Torre de Moncorvo	811	101	1	67	0	87	293	122	34	15	44	47
Vila Flor	700	135	3	61	0	92	233	93	25	9	28	21
Vila Nova de Foz Côa	764	101	9	66	2	93	253	124	25	22	27	42
Vila Real	4 570	297	18	274	8	703	1 539	605	152	160	448	366

Source: INE (2007a).

Key: A — Agriculture, hunting and forestry; B — Fishing; C — Mining and quarrying; D — Manufacturing; E — Electricity, gas and water supply; F — Construction; G — Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods; H — Hotels and restaurants; I — Transport, storage and communication; J — Financial intermediation; K — Real estate, renting and business activities; M — Education; N — Health and social work; O — Other community, social and personal service activities

On the other hand, the type of firms located in the region indicates that they have low technological capability and low capacity of intersectoral transference of resources. In effect, apart from the firms of commerce and reparation, the most frequent type of firm corresponds to the activities of agriculture, hunt, forestry and fishing. These activities have many potential

linkages with tourism. However, unless a large transformation is operated, the actual dimension of firms imposes that they face large indivisibilities and consequent decreasing returns.

But let's look at the other factors of regional competitiveness in Figure 1. Beginning with factor market, the competitiveness of a specific region depends on human resources and their qualifications. In other words, regional development founded on tourism requires not just natural assets (a resource base) and human-made capital (infrastructure) but also human capital (Hall and Boyd, 2005). The often-mentioned average low level of education of the Portuguese people is confronted in the traditionally less developed Douro with a still lower educational level than the average. Although this affects the general level of efficiency, the existence of the specialized resources that tourism requires is important, if one plans to base regional competitiveness in the tourism activities. In this respect, the proximity with the University of Trás-os-Montes together with the creation of the Northern College of Higher Education in Hotel Management (“Escola Superior de Hotelaria do Norte”) and the expansion of the Lamego School for Hotel Management and Tourism (“Escola de Hotelaria e Turismo de Lamego”) can contribute to the qualification of some more specific human resources.

Figure 1 also includes environmental resources in the factors of regional competitiveness. These are defined as a combination of natural and cultural resources and are at the centre of many successful cases of sector and regional growth (Pessoa and Silva, 2007). This important group of assets is alleged as the key reason for the specialization of the Douro region in tourism. In fact, the Douro Valley is a noteworthy example of mixing natural and cultural resources. It was probably the world's first officially demarcated wine region⁵ and it is owing to its natural, cultural and historical wealth that a significant part of the Douro Valley was classified as a World Heritage by UNESCO.

The economic and social evolution of the valley of the Douro River is intrinsically linked to the production of port wine. Evidence of the port business can be seen along the valley with all the famous English company names – Cockburns, Taylors, Sandeman and others – appearing on large placards on the hillsides. This is a reason for the specialization in wine tourism, and differently from the generality of firms in Douro, these large companies have sufficient dimension to extend their value chain by exploiting the tourism “filierre”. However, they tend to

⁵ It is no doubt one of the world's most difficult wines growing region. Demarcated in 1756, it is a region where cultivated vine is planted on the harsh, rugged mountains that rise up from the Douro River and its tributaries.

concentrate tourism flows outside the region, in Porto or Vila Nova de Gaia, where wine cellars are located.

Other possibilities for tourism exist, profiting from and complementing the natural beauty of the Douro Valley. First, apart from the wildness of mountainous Douro, nature-based tourism can be linked to the almond trees in blossom in February and March, particularly in the upper reaches, creating blankets of pink-white everywhere. Second, gastronomy tourism linked to both white and red excellent Douro wines, which are an admirable complement to the regional dishes, including the readily available fresh fish.

On the other hand, one cannot say that there is overexploitation of tourism⁶. Visitors are comparatively few and, as far as congestion is concerned, getting around is fairly easy. However, the roads zigzagging up and down the mountainsides and between the tributary valleys can be difficult driving, but it does offer fantastic untouched scenery. More relaxing modes of transport are available, however. Cruise boats ply up and down the valley negotiating the dams via locks of sometimes breathtaking height. Trips run from Porto, Régua and Pinhão. Alternatively, the Douro railway line, which runs 175 kilometres from Porto to Pocinho, joins the river at Mosteiro and for the next 100 kilometres does not leave the bank, making this one of Europe's great rail journeys. However, apart from some small effects on employment, these activities have reduced economic impact on the region.

Another important factor of regional competitiveness is the local "milieu". This can be "defined as a set of territorial relationships encompassing in a coherent way a production system, different economic and social actors, a specific culture⁷ and a representation system, and generating a dynamic collective learning process" (Camagni, 1991, p. 130). The milieu where firms are located has an important role in competitiveness both in terms of static efficiency, that is, increases in TFP (total factor productivity) and in terms of dynamic efficiency (innovative capacity of firms), basically because the "milieu" plays the important role of reducing uncertainty and favouring collective learning.

⁶ It is to be noted that a significant part of the Douro Valley is integrated into areas classified as World Heritage (natural parks or areas regulated by Land Use Plans) and that there are also environmental protection regulations that are additional guarantees of the protection of the region's tourism resources. So, there is a clear concern not to destroy the character of the Douro Valley.

⁷ Specific culture includes not only the system of rules and specific values of a locality (village, town, region, etc.), but also the so-called relational capital, which corresponds to the knowledge resulting from the act of working together.

In Douro, as in other lagging regions that are trapped in a low-activity equilibrium, and aim to increase their competitiveness, the most important question is how to energise entrepreneurship. How to put into motion the activities that entrepreneurs undertake in more developed locations, such as the production of new products, the use of new processes, the expansion of capacity, the use of new technology, the search for new markets, and so on (Pessoa, 2004).

It is well known that important barriers to investment are not only the static uncertainty that arises as a consequence of gaps in information, assessment, and competence, but also the dynamic uncertainty that results from the competence-decision gap and from the control gap (on these concepts, see Camagni, 1991). The effectiveness of the “milieu” in helping to overcome this barrier and simultaneously in promoting the collective learning depends on the interaction between local firms and on the other existing networks. As explained above, the real conditions of the business sector in Douro are averse to the creation of a business “atmosphere”.

So, the local “milieu” is perhaps the most fragile factor of the competitiveness of the NUT Douro. It is a territory with a low population density and a low establishment density (1.4 establishments by square Kilometre). The low establishment density is not favourable to the creation of a network of mainly informal contacts among local actors, building the “atmosphere” favourable to an endogenous entrepreneurship. The usual forms of uncertainty, both static and dynamic, will go on to prevent the transformation of Douro from a lagging to a prosperous region. It is difficult to base competitiveness on a new activity like tourism, if the factors that promote entrepreneurship are lacking.

The good working of the Legal and Justice systems is also a sine qua non condition for the competitiveness of countries and regions. The problems that the Legal and Justice environment put to the Portuguese economy are well known and the investment in tourism is not an exception. But, apart from the general characteristics of the legal and regulatory background that affect the generality of the Portuguese economy, specifically in the tourism activities, there are some specific improvements in line with the choice of tourism as a “strategic sector in the Portuguese economy”.

In fact, the characterization of Douro as a tourism pole, and the consequent definition of objectives by the Portuguese Government, has determined the implementation of a varied sort of measures to eliminate some barriers to investment that previously threatened the transformation

of the Douro Valley into a tourist destination. These measures include the simplification of administrative procedures for investment purposes, a review of the legislation on the licensing of tourist developments, and clarification of the types of project to be supported in each tourism area through the creation of areas of tourism protection, in order to produce the main objective of “developing Douro as a tourism pole of cultural landscape and sustained development”⁸, and a new model of tourism promotion, which involves the use of the API (Portuguese Agency of Investment).

The API, in cooperation with the South Douro Tourism Region Office, has promoted an inquiry on the existing assets in the Douro Valley, a project supported by the incentive programme PIQTUR. The project covers all the relevant assets in the Douro Valley, which can be improved or transformed into tourist activities, like tourist lodging, restaurants, services and recreation facilities, properties for development, as well as all monuments, or historical sites that can be visited in the vicinity of each asset⁹.

As depicted in figure 1, collective infrastructures are also important for the competitiveness of regions. In fact, the lack of infrastructures is one among the most frequent and traditional explanations for the backwardness of regions. During the last two decades a large effort in infrastructural investment was done, with several new, or considerably improved infrastructures being built, such as: i) Rail — the Porto-Régua line, linking Porto to the heart of the Douro; ii) waterway infrastructures — in particular, the increase and improvement of navigability conditions of the Douro River; iii) Road access — there has been a significant reduction in access time to the region; iv) Health services and equipment: in particular in Vila Real and Lamego. So, the improvements in both legal and collective infrastructures make the development of the region easier.

Finally, to conclude the factors of figure 1, regional competitiveness must be linked to the Global market. The competitiveness of firms needs to be oriented to attain gains in market power. So the

⁸ “*desenvolver o Douro como pólo turístico de paisagem cultural e desenvolvimento sustentado*”. See *Conselho de Ministros* (2007, section III, 3, d).

⁹ The API has presented the Douro promotional dossier to around one hundred national and international investors, in 14 countries, and consequently several investment intentions have been collected for the region. Following these commercial initiatives, API has received a high number of inquiries from potential investors regarding the region's existing properties that could be reconverted into accommodation, restaurant, services and tourism entertainment facilities, along with the availability of land for possible original tourist operations. However, in spite of such preliminary interest, few investments have been effected.

differentiation of products and services and the marketing plans must be designed in order to aim to be present and to foresight, and in consequence to adapt to, the trends in global markets. For instance, one of the aims of the Portuguese Tourism Development Plan for Douro is to develop Gastronomy and wine Tourism products, but there are a lot of other regions trying to do the same.

In fact, wine tourism has enjoyed a rapid growth in popularity in recent years all over the world. This has caused several networks of cities and wine regions to appear aiming at promoting their potentialities. This is the case of the Global Network of Great Wine Capitals¹⁰, which embraces Melbourne, Bordeaux, San Francisco — Napa Valley, Porto, Cape Town, Bilbao—Rioja, Florence and Mendoza, and works to encourage international winery tourism. So, to the Douro Valley it is not enough to identify the region where port is produced, or to advertise its other excellent, but much less widely known, red and white wines. It is essential that Douro be not marginalized from this network movement.

So, if the Douro Valley intends to be a competitive region in wine tourism, it must be aware of the aggressively world competition for visitors. Regions so distant and diverse like the Marlborough Region in New Zealand and the Stellenbosch Wine Route in South Africa need to be considered as its competitors at the global level.

5. THE TOURISM IN THE DOURO VALLEY: PROMISES AND REALITIES

The idea of transforming Douro in a tourism destination is relatively recent. In 2003, the Portuguese government determined the elaboration of the tourism plan for the Douro Valley, which is considered “a region of exceptional aptitude and propensity for tourism”, owing to the wealth of its natural, landscape, history and cultural patrimony and also to the production of Port and Douro wine¹¹.

After two changes of government the idea is resumed in the “Objectives and lines of the National Strategic Tourism Development Plan”, which defined “The Tourism Development for Douro as consisting of transforming Douro in an international tourism pole, making tourism a catalyst to the socio-economic development of the region. The plan aims to develop three tourism products:

¹⁰ See <http://www.greatwinecapitals.com/>

¹¹ See in *Conselho de Ministros* (2003) the *Resolução* n.º 139/2003, of 31 July.

cultural and landscape touring (including fluvial cruisers), gastronomy and wines and nature-based tourism. Also, the Portuguese Government defined as target both the domestic market and the main European markets¹². So, before concluding, let's say something about the realization of these objectives.

Firstly, in the two tourism plans, as well as in many speeches of members of the Central Government and other representatives of the regional authorities, some ambiguity in what they mean by Douro exists. Sometimes they mean the NUT Douro, other times the expression is used in a broader sense indicating all the Valley of the Douro River from the Spanish frontier to the Atlantic Ocean, which includes part of Metropolitan Area of Porto. In this paper we use the expression Douro Valley in a more focused sense, meaning a region that is centred in the NUT Douro.

Secondly, one must note that there is not one tourism region that overlaps the NUT Douro. The Office that most claims the representation of the Douro Valley is the South Douro Tourism Region (SDTR). However, this only covers 8 municipalities (Armamar, Lamego, Moimenta da Beira, Penedono, S. João da Pesqueira, Sernancelhe, Tabuaço and Tarouca) from the 19 municipalities of the NUT Douro, and includes 3 municipalities that pertain to other NUTs (Cinfães, Resende, Meda)¹³. So, the SDTR role in representing the Douro tourism strategic interests is limited. But, on the other hand, there are other entities that are trying to make tourism in the Douro Valley known, many of them through Internet portals. This is the case of Douronet¹⁴, which includes partnerships with firms of 16 municipalities of the Douro region, and perhaps this can help advertise the Douro environmental resources and so contribute to increase Douro competitiveness.

Although the inquiry on the existing assets in the Douro Valley promoted by API, and mentioned above, is important, because there is a reduced supply of hotels and other accommodations for tourists in Douro (only 8 percent of the total establishments of Norte region), improving the quality of the supply is also important. Table 5 shows the number of hotels and similar

¹² See *Conselho de Ministros* (2007).

¹³ So, the following NUT Douro municipalities are excluded from the South Douro Tourism Region: Alijó, Carrazeda de Ansiães, Freixo de Espada à Cinta, Mesão Frio, Peso da Régua, Sabrosa, Santa Marta de Penaguião, Torre de Moncorvo, Vila Flor, Vila Nova de Foz Côa and Vila Real. It is noteworthy that much of the lodging capacity of the NUT Douro is situated in these municipalities, particularly in Alijó, Peso da Régua and Vila Real.

¹⁴ See www.douronet.pt.

establishments and lodging capacity on 31 July 2006, by municipality, and the corresponding figures for 1999.

Table 5.
Number of establishments and lodging capacity, by municipality, 2006

	Establishments				Lodging capacity			
	Total	Hotels	Boarding houses	Others	Total	Hotels	Boarding houses	Others
Portugal	2 028	622	877	529	264 037	127 423	42 159	94 455
Continente	1 750	532	798	420	226 944	106 789	38 702	81 453
Norte	452	122	270	60	35 504	19 306	12 148	4 050
Douro	36	8	22	6	2 333	1 044	995	294
Alijo	6	1	4	1	233	86	105	42
Lamego	9	2	6	1	620	267	331	22
Mesão Frio	1	0	0	1	58	0	0	58
Moimenta da Beira	2	1	1	0	88	68	20	0
Penedono	1	0	0	1	26	0	0	26
Peso da Régua	4	1	3	0	356	149	207	0
Santa Marta de Penaguião	1	0	1	0	33	0	33	0
São João da Pesqueira	1	0	1	0	47	0	47	0
Tabuaço	1	0	1	0	29	0	29	0
Vila Real	5	2	1	2	540	374	20	146
Outside NUT Douro:								
Cinfães	1	0	0	1	46	0	0	46
Resende	3	1	2	0	161	71	90	0
Meda	2	0	2	0	66	0	66	0
1999:								
Portugal	1 772	465	874	433	216 828	94 217	40 537	82 074
Norte	395	95	256	44	28 485	14 629	10 849	3 007
Douro	32	7	20	5	2157	982	921	254

Source: INE (2000, 2007a). Note: Armamar, Carrazeda de Ansiães, Freixo de Espada à Cinta, Sabrosa, Sernancelhe, Tarouca, Torre de Moncorvo, Vila Flor and Vila Nova de Foz Côa are not represented in the Table because they have a total absence of hotel and similar establishments.

The municipalities presented in the table are those of the NUT Douro that have lodging capacity plus three municipalities that integrate other NUTs but are included in the SDTR. As we can see, whereas in Portugal as a whole 30.7 percent of establishments are hotels, in Douro this figure corresponds only to 22.2 percent, with a disproportional high weight of boarding houses. It is difficult to attract high quality tourism, particularly from Northern Europe and the USA with such a predominance of boarding houses.

Additionally, table 5 shows that, in 2006, the number of establishments and the lodging capacity are far from being evenly distributed in the region. Four municipalities (Alijó, Lamego, Peso da

Régua and Vila Real concentrate 67 percent of the number of hotels and similar establishments (75 percent if only hotels are considered) and 75 percent of the lodging capacity. On the contrary, 9 municipalities have no hotels or similar establishments. But table 5 makes also apparent that both the number of establishments and the lodging capacity have increased much more in Portugal and Norte region than in Douro, from 1999 to 2006. For instance, while the lodging capacity increased 24.64 percent in the Norte region, in Douro it only increased 8.16 percent. This runs against the objective of transforming Douro Valley in the fourth tourism destination of Portugal, as is also confirmed by Table 6.

Table 6.
Number of nights spent and guests in hotel establishments by municipality

2006:	Nights				Guests			
	Total	Hotels	Boarding houses	Other	Total	Hotels	Boarding houses	Other
Portugal	37 566 461	20 629 295	3 543 884	13 393 282	12 376 941	7 879 703	1 633 195	2 864 043
Continente	30 657 267	16 729 880	3 104 155	10 823 232	10 975 409	7 024 921	1 523 532	2 426 956
Norte	3 844 374	2 551 384	817 554	475 436	2 144 033	1 408 714	440 708	294 611
Douro	221 081	...	73 665	...	151 181	...	63 626	...
1999:								
Portugal	32 728 061	15 909 678	3 159 755	13 658 628	9 182 603	5 624 684	1 416 020	2 141 899
Norte	2 994 353	1 917 135	720 600	356 618	1 674 471	1 054 874	410 337	209 260
Douro	176 386	101 883	55 420	19 083	125 188	66 916	45 367	12 905

Source: INE (2000, 2007a). Note: (...) means data not available.

As is visible on table 6, the data on nights spent and guests are sparse and we have not data on nights spent and guests in hotels and other accommodation establishments, but we can see that tourism has a small weight in the Douro region. In 2006, the nights spent in Douro only correspond to 6 percent of the Norte region and to 0.59 percent of Portugal. In respect to the guests, the numbers are slightly higher (7 percent and 1.2 percent, respectively), but go on being illustrative of the Tourism reduced dimension in Douro. The comparison with the data of 1999 shows that the number of nights spent and the number of guests in hotel establishments in Douro have maintained or have lost weight relatively to the Norte region and to Portugal as a whole.

In fact, although the total of nights spent in Douro have increased by 25.34 percent, from 1999 to 2006, in the Norte region the rate of increase was 28.39 per cent¹⁵. But respecting the total of nights spent, the gap have increased at a higher pace: while in Douro the rate of growth was 20.76 per cent, Norte and Portugal registered rates of 28.04 and 34.78 per cent, respectively.

Table 7 shows some indicators of hotel activity comparing data for 1999 with the equivalent for 2006. The average stay of tourists in hotel establishments in Douro is very low when compared with the average stay in Portugal, or even with the average stay in the Norte region.

Table 7.
Average stay and occupation rate

2006:	Average stay on the establishment				Gross Bed-occupation rate			
	Total	Hotels	Boarding houses	Other	Total	Hotels	Boarding houses	Other
Portugal	3.0	2.6	2.2	4.7	40.8	45.1	24.9	41.8
Continente	2.8	2.4	2.0	4.5	39.0	43.8	23.9	39.6
Norte	1.8	1.8	1.9	1.6	30.1	36.0	19.5	32.4
Douro	1.5	1.7*	1.2	1.6*	26.1	32.6*	20.3	27.2*
1999:	Average stay on the establishment				Net Bed-occupation rate			
Portugal	3.6	2.8	2.2	6.4	42.6	47.6	23.3	45.9
Norte	1.8	1.8	1.8	1.7	30.4	37.3	19.7	33.6
Douro	1.4	1.5	1.2	1.5	24.1	27.7	19.5	23.9

Source: INE (2000, 2007a); note: *data refer to 2005.

Although from 1999 to 2006 there is a slight catching up with the Norte region, such approximation doesn't exist with reference to boarding houses. Also bed-occupation rate are lower in Douro, only with the exception represented by boarding houses, which is indicative of the low average purchasing power of the tourists that visit Douro.

The figures of table 7 contrast with the average stay and the bed-occupation rate that are usually associated to the three tourism products that are the target of the tourism plan for the Douro Valley (cultural and landscape touring, gastronomy and wines and nature-based tourism). For instance, respecting to touring the great majority (85.7 per cent) of the touring travels made by European tourists last by more than 4 nights (THR, 2006).

¹⁵ Although apparently high, these rates of growth are modest if we compare with the increase in the tourism products that are intended to make the core of tourism in the Douro Valley, and particularly with touring, which are alleged to grow at 5 to 7 percent a year (see THR, 2006).

Data of tables 5, 6 and 7 make the contradiction with the repeated intention of transforming the Douro Valley in the fourth Portuguese tourism destination evident. Douro will need to have very high growth rates of tourism indicators to diminish the gap in relation to the Norte region and other Portuguese tourism regions. But, on the contrary, the gap doesn't decrease. So, if this is the case, the capacity of tourism to act as a catalyst of the development of Douro region is not established. But let's look at another objective of the Tourism Plan: "attaining the main European markets"¹⁶.

As is apparent on table 8, the average stay of foreign tourists in Douro is very low when compared with the average stay in Portugal or even with the Norte region. Also the proportion of foreign guests in total is very low: less than half of the Norte region and less than a third of Portugal. Also the seasonality, measured by the proportion of nights spent between July-September is high in the Douro Valley. Although the figures of table 8 show that it is slightly lower than in Portugal but near to the figures of the Norte region, the fact is that the high seasonality of Portugal is positively influenced by the fact that the most demanded Portuguese tourism destinations offer almost exclusively sun and sea, which must not be the case of the Douro Valley, which is trying to develop a "countryside" tourism based on factors like culture, nature and gastronomy.

Table 8.
Hotel activity indicators, 2006

	Average stay of foreign guests	Lodging capacity per 1000 inhabitants	Guests per inhabitant	Proportion of foreign guests	Proportion of nights between July-September	Nights in hotel establishments per 100 inhabitants
	No. of nights	No.		%		No.
Portugal	3.9	24.9	1.2	52.6	36.8	354.4
Continente	3.5	22.4	1.1	50.7	38.0	303.2
Norte	2.1	9.5	0.6	35.2	34.3	102.7
Douro	1.6	10.9	0.7	15.9	34.9	103.3

Source: INE (2007a).

Furthermore, the evolution of tourism in Douro shows low capacity of taking profit from the trends in the European demand, which has registered a higher dynamics in "countryside"

¹⁶ See *Conselho de Ministros* (2007).

holidays than in the “sun and beach” holidays. In fact, according the World Travel Monitor¹⁷, while the former grew 9 per cent the latter only increased by 4 per cent, in Europe in 2006 (IPK, 2007).

Table 9 shows the number of nights spent in hotel establishments according to country of usual residence of tourists. In spite of the stated in the Tourism Development Plan, tourism has not had a significant increment in foreigner tourists in Douro. Although the number of nights spent in hotel accommodation has increased 25%, the number of nights spent by foreigners only increased 23% from 1999 to 2006, and this increase was accompanied by important changes in the origin of foreigner tourists.

Table 9
Nights spent in hotel establishments according to country of usual residence

	Total	European Union (15)								USA.
		Total	of which:							
			Portugal	Germany	Spain	France	Italy	The Netherlands	United Kingdom	
2006:										
Portugal	37 566 461	34 016 164	12 350 001	3 862 780	3 194 856	1 241 117	953 332	1 795 330	7 257 561	623 688
Continente	30 657 267	27 656 196	11 016 109	2 392 160	2 925 841	955 751	846 126	1 574 761	5 778 909	553 662
Norte	3 844 374	3 478 822	2 292 416	136 864	491 581	145 465	102 526	56 367	143 627	49 016
Douro	221 081	212 324	181 484	4 545	8 226	4 361	1 151	1 592	7 636	1 672
1999:										
Portugal	32 728 061	29 673 617	9 397 225	5 127 075	1 722 221	983 114	815 435	1 753 986	6 892 337	732 514
Norte	2 994 353	2 768 660	1 868 295	135 833	261 199	118 421	92 189	60 129	144 731	42 258
Douro	176 386	171 925	145 592	4 904	3 500	2 862	841	1 939	8 765	1 213

Source: INE (2000, 2007a).

In fact, there was a significant decrease in the number of tourists coming from Great Britain, The Netherlands, and Germany, which is a surprising fact because of the promotion campaigns supported partly by the Portuguese Government. The more explicit increases of nights spent in hotels are related with increases of South European Countries: Spain, France and Italy. These countries have comparatively lower purchasing power than the Northern European countries, but

¹⁷ IPK International’s “World Travel Monitor” is the largest tourism study in the world to monitor the evolution of international tourism. The “World Travel Monitor” data derives from population-representative surveys taken in the individual source markets.

have a well developed tourism industry and are particularly receptive to wine and natural tourism. This suggests a limited effect of the used promotion actions, and a need to change the strategy of the tourism promotion of the Douro Valley, namely by integrating more frequently in networks of nature and wine tourism.

6. CONCLUSION

Inserted in the new approach to regional development, we put forth a strategic concept of competitiveness, which emphasises the role of regional “assets” as the source of firm competitiveness, encompassing not only physical infrastructures but also other less tangible factors. Based on this concept of competitiveness, a development strategy can emerge. One that implies more focus on endogenous assets, and less on exogenous investments and transfers and, complementarily, emphasising opportunities rather than regional disadvantages.

We have applied such concept of competitiveness to the Portuguese Douro Valley in order to identify the strengths and weaknesses of that region. Our analysis shows that while the supply of environmental resources is the key strength of the region, its main weakness is the absence of a business “atmosphere” that can generate the endogenous entrepreneurship necessary to conveniently exploit the wealth of such environmental assets.

On the other hand, national and some local authorities have declared the tourism as the catalyst of the socio-economic development of the region. In fact, landscape, history, wines and gastronomy are important environmental resources, which can be attractive for tourism if well noticed. However, our analysis shows that it is not sufficient to have a supply of such resources to make a region competitive, it is also needed to construct advantages based on them. But, the official commitments on tourism seem to ignore, at best apparently, that apart from the abundance of environmental resources, the other factors of competitiveness are highly adverse to the endogenous development of tourism in the Douro region, which is isolated from mass markets, relatively weak in terms of internal linkages, subject to ageing and out-migration, lacking in innovation and entrepreneurship, and dependent on a degree of state intervention for their well-being. In such conditions, construction of competitive advantages is very difficult and the role of tourism in pushing regional development is likely not to work.

Accordingly, one important lesson can be extracted: for propelling the regional development, to have a supply of environmental resources is not enough. Apart from the necessity of other factors of competitiveness be required, it is necessary to advertise those resources to potential users. However, given the specific characteristics of tourism (a not well defined sector; positive and negative externalities; interdependence; large indivisibilities) and the particular conditions of the local milieu, the costs of promotion can be prohibitively high for regions where tourism is incipient. In that case, there is a need to coordinate such investments and so a tourism office that will include all the municipalities of Douro is mandatory. Also, in the case of the Douro Valley to integrate international networks of nature-based and wine tourism is important as a form of reducing the costs of promotion.

The case highlighted in this paper shows that to converge with the developed regions, the lagging regions that are trying to develop based on tourism, cannot only rely on a combination of environmental resources and marketing, but have to attend also to the specificities of the other factors of competitiveness. The Douro “milieu” is characterized by an absence of a business “atmosphere”. This lack, associated to both low technological capability and low capacity of intersectoral transference of resources of existing firms, renders the endogenous entrepreneurship practically absent in the tourism sector. In such circumstances, public policy must be able to propel the regional development through either exogenous initiatives or long-term technical and financial support or both.

So, a regional policy is needed. One that takes in good account two important bases: i) the existing activities in the region and ii) the re-qualification of the Douro territory. Both bases are well-acknowledged by recent competitiveness’ theories of cities and territories and can be two good points for a future research agenda. Respecting to the first, encouraging the efforts of modernisation in the wine sector, related to a new generation of entrepreneurs, farm owners, wine technicians and small farmers associations, which can be mobilized by the purpose of producing quality wines, is essential. Regarding the second, it seems absolutely indispensable not only to increase the attractiveness of the region but also, and perhaps more fundamentally, to retain the skilled workforce that is crucial to the future development of the Douro region, whatever the strategic sector would be.

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