THE INSTITUTIONAL IMPACT ON TOURISTIC INDUSTRY IN SOUTHERN EUROPEAN UNION COUNTRIES

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Abstract

The tourism industry in Southern European Union (EU) countries is a critical economic sector, significantly contributing to GDP and employment. This paper investigates the role of institutional factors in shaping the tourism industry in these regions, examining how governance, regulatory frameworks, and policy measures influence tourism development. The study focuses on evaluating the institutional impact on tourism through qualitative and quantitative analyses. The findings underscore the importance of effective governance and robust institutional frameworks in fostering a resilient and competitive tourism sector. This research explores the impact of institutional quality on tourism development in a panel of southern countries within the European Union over the period. Tourism development is evaluated using the number of tourist arrivals, with control variables such as GDP growth rate, inflation, higher education, quality of the environment, and trade, representing key determinants of tourism. Institutional quality is gauged using indicators of government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability. The study utilizes the Fully Modified Ordinary Least Square (FMOLS) and Dynamic Ordinary Least Squares (DOLS) estimators to assess the influence of these determinants on tourism development. The findings demonstrate a positive correlation between institutional quality and tourism, providing valuable insights into the role of institutions in tourism management and their impact on the sector.

Keywords: Institutional, economic growth, touristic industry, European Union

JEL Classification Codes: E60, O40

1.   **Introduction**

The Southern European Union (EU) countries are renowned for their rich cultural heritage, scenic landscapes, and favorable climates, making them prime tourist destinations. Tourism is a pivotal industry in these countries, driving economic growth and job creation. However, the industry's performance and sustainability are significantly influenced by institutional factors. This paper explores how governance, regulatory policies, and institutional quality impact the tourism industry in these regions. Tourism has emerged as one of the globe's rapidly expanding and influential economic sectors, leaving an indelible mark that goes beyond the realms of mere travel and leisure. Its impact is felt across various facets of society, contributing significantly to employment, infrastructure development, cultural exchange, and overall economic growth. In a constantly evolving global economy, unraveling the complexities of tourist behavior has become imperative for the sustainable development of tourism destinations. At the core of this intricate web lies the critical role of institutions, encompassing government agencies, tourism organizations, local authorities, and non-governmental organizations (NGOs). These institutions play a multifaceted role in steering tourism development. They are the architects behind regulatory frameworks that ensure the safety, security, and environmental sustainability essential for the well-being of both tourists and local communities. Moreover, institutions facilitate economic growth by fostering an environment conducive to tourism entrepreneurs and investors, thereby stimulating economic development. Additionally, institutions are pivotal in promoting destinations, disseminating information, and elevating the overall tourist experience. The quality of institutions, therefore, becomes the foundational cornerstone upon which the success of tourism hinges. This study adopts a comprehensive approach by examining nine Mediterranean European Union (EU) countries: Croatia, Cyprus, France, Greece, Italy, Malta, Portugal, Spain, and Slovenia. Together, these nations account for over 50% of global tourist arrivals and nearly 40% of tourism income, hosting some of the world's most sought-after destinations, including picturesque coastlines, historic landmarks, and vibrant cultural scenes (UNWTO, 2021a). Some of the world's most popular tourist destinations are located within the territory of the Mediterranean countries of European Union. France, Spain and Italy are ranked in the top 10 countries according to the number of tourist arrivals and generated income (UNWTO, 2021b). This selection allows for an exploration of diverse development stages and tourism market shares within the Mediterranean region. A distinctive feature of this research lies in its use of data from the World Governance Indicators (WGI), enabling a holistic assessment of institution quality and its implications for tourism and other economic sectors. In contrast to prior studies that often focused on specific regions or a limited set of indicators, this research adopts a more comprehensive perspective. By employing a wide array of institution quality indicators and analyzing standard variables such as tourist arrivals and tourism employees, this study aims to offer fresh insights into the competitiveness of tourism-related businesses in these Mediterranean EU countries. The anticipated outcomes seek to illuminate the pivotal role institutions play in the domain of tourism and their capacity to influence economic development through the tourism sector. Beyond its academic significance, this knowledge holds substantial implications for policymakers and stakeholders, guiding adjustments and strategic decisions to optimize the outcomes of tourism development. The subsequent sections of this investigation are structured as follows: Section II presents a concise review of pertinent literature on institutions and tourism development. Section III introduces the data used in the analysis along with stylized facts. Our econometric framework is outlined in Section IV. Moving on to Section V, empirical results are presented, accompanied by sensitivity checks to validate baseline findings and offer a more detailed analysis. Finally, Section VI concludes the study, emphasizing policy implications.

2.   **Literature review**

Existing literature highlights the intricate relationship between institutional quality and tourism development. Institutions, defined as the rules and regulations governing economic activities, play a crucial role in shaping the business environment and influencing investor confidence. In the context of tourism, effective institutions can enhance destination attractiveness, ensure sustainable development, and mitigate risks associated with political instability and economic

volatility. Studies have shown that countries with strong institutions tend to experience more robust tourism growth and higher levels of foreign direct investment in the tourism sector. Recent research underscores the pivotal role of institutions and their quality in steering tourism development. Studies conducted in the context of contemporary challenges, including the COVID-19 pandemic (Fahimi et al. 2018; Ghalia et al. 2019; Detotto et al. 2021), have delved into the intricate relationship between institutions and tourism outcomes. While these studies provide valuable insights, a discerning examination reveals nuances in their findings. Yap & Saha (2013) probed the impact of various indicators on tourism across 139 countries, revealing that the presence of natural and cultural heritage significantly altered the effects of determinants on tourism indicators. Notably, the impact of corruption on tourist arrivals varied with the presence of cultural and natural heritage. This finding underscores the complexity of factors influencing tourism and highlights the need for a nuanced understanding of their interplay. Gholipour, Tajaddini, and Al-Mulali (2014) explored the impact of civil liberties and responsibilities on outbound travel frequency, proposing that restrictive policies might lead individuals to seek experiences prohibited in their home countries. The study's confirmation of this assumption implies potential economic consequences for states with stringent policies. However, a thoughtful perspective would necessitate a comparative analysis of different regions to discern broader patterns. Balli et al.'s (2016) analysis of recent bilateral tourism flows from OECD countries to middle-to-low-income countries provided valuable insights into the influence of immigration, trade, and institutional quality. While the positive advertising effect of immigrants on tourism flows is noteworthy, a nuanced examination would involve comparing these effects across diverse regions and income levels to identify potential disparities. Ghalia et al. (2019) delved into political risk, institutional quality, and other determinants influencing tourist demand, emphasizing the importance of reduced political risk and enhanced institutional quality. A discerning approach would involve scrutinizing the generalizability of these findings across diverse regions and political contexts, acknowledging potential variations in the impact of political risk and institutional quality on tourism. Nassani et al. (2019) examined the interrelation among finance, empowerment, and tourism, confirming the pivotal role of financial intermediaries in empowering women through tourism. While supporting the Tourism-Led Growth Hypothesis, a thoughtful perspective would involve assessing the generalizability of these findings to different cultural and economic contexts. Khan et al. (2020) emphasized the importance of maintaining institutional quality thresholds in Asian destinations. A judicious analysis would involve comparing the specific institutional variables influencing tourism outcomes in different Asian regions, recognizing potential variations in the impact of institutional quality. Canh & Thanh (2020) explored the nexus between institutions, tourism, and economic growth, emphasizing the role of domestic tourism in fortifying economic resilience. A nuanced examination would involve assessing the limitations of domestic tourism as a sole determinant of economic resilience and exploring the potential interplay with other factors. Mushtaq, Thoker, and Bhat (2020) empirically investigated how institutional quality influences international tourism demand for India, acknowledging the influence of various factors. A perceptive perspective would involve comparing the relative importance of these factors across diverse countries and regions, recognizing potential variations in the impact of institutional quality. Lee, Lee, and Har (2020) examined the institutional environment in Malaysia as a tourism destination, highlighting the importance of corruption control and government effectiveness. A discerning perspective would involve comparing the specific institutional variables influencing tourism outcomes in Malaysia with other similar destinations, acknowledging potential variations in the impact of institutional quality. The study of Akram et al. (2021) scrutinized the influence of country governance on tourism and examined the effects of tourism on environmental quality. While identifying positive influences, a judicious examination would involve assessing the potential trade-offs between tourism development and environmental quality, recognizing the need for sustainable practices. In summary, while existing studies provide valuable insights into the relationship between institutions and tourism, a discerning perspective reveals the need for comparative analyses across regions and a nuanced understanding of the multifaceted factors influencing tourism outcomes. This paper aims to address this gap by analyzing multiple institutional variables within the European Union context, contributing to a more

comprehensive understanding of the intricate interplay between institutions and tourism development.

3. **Methodology**

This study employs a mixed-methods approach, combining qualitative and quantitative analyses. Qualitative data are gathered through interviews with industry experts and policymakers, while quantitative data are sourced from secondary databases, including national statistical offices. The analysis focuses on four key institutional dimensions: governance quality, regulatory frameworks, policy effectiveness, and political stability. These dimensions are evaluated using indicators such as the World Bank's Governance Indicators, the Travel and Tourism Competitiveness Index, and the Global Peace Index.

3.1 **Model specifications**

Our empirical approach relies on a panel data analysis. Prior to delving into the econometric method, it is imperative to validate the stationarity of the selected variables. Bearing this in mind we used three panel unit root tests – the Im, Pesaran and Shin (IPS) test (2003), Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) test, following the methodology delineated by Maddala and Wu (1999). Next, the study employs two cointegration tests, namely Pedroni (1999) and Kao (1999), to assess the potential existence of a long-term relationship between the determinants outlined in the model. Cointegration analysis is crucial in investigating whether the included variables move together in the long run, indicating a stable and enduring connection among them. Following the completion of the cointegration tests, the subsequent stage involves estimating the long-term relationship between the variables. Various estimation methods are proposed in the literature for panel cointegration models, and in this study, we opt for the Fully Modified Ordinary Least Squares (FMOLS) and Dynamic Ordinary Least Squares (DOLS) estimators for several compelling reasons. These estimators are chosen for their effectiveness in addressing key issues encountered in cointegration analysis. Firstly, the FMOLS and DOLS estimators offer a solution to the bias and inconsistency observed in the Ordinary Least Squares (OLS) estimator when applied to cointegrated panel data. The study addresses potential biases by employing strategies to mitigate both small-sample bias and endogeneity bias. To tackle small-sample bias, the inclusion of leads and lags of first-differenced regressors is implemented. This technique helps to enhance the robustness of the analysis, particularly in situations where the sample size is limited. Additionally, the study acknowledges the challenge posed by cases where the time dimension (T) of the panel exceeds the cross-sectional dimension (N). In such instances, the effectiveness of the dynamic estimator of the Generalized Method of Moments (GMM) can be compromised. Recognizing this limitation, the research adopts alternative approaches to ensure the reliability of the estimations and the validity of the results. This demonstrates the methodological diligence taken to account for specific challenges associated with the panel structure of the data. Given that this study involves a larger time dimension (T=26) compared to the cross-sectional dimension (N=9), the DOLS and FMOLS estimators are more suitable. Lastly, the flexibility of these estimators in handling heterogeneity within cointegrated vectors, as well as their ability to control endogeneity in the model, makes them preferable for our analysis. The DOLS estimator, in particular, is favored over FMOLS due to its parametric approach, providing a more reliable and robust method for estimating cointegrated panel regressions. By incorporating these techniques, the study aims to provide more accurate and unbiased estimates, contributing to the overall robustness of the findings. The consideration of potential biases and the implementation of suitable corrections underscore the rigor and credibility of the research methodology, strengthening the study's capacity to offer meaningful insights into the relationship between institutional quality, economic factors, and tourism development in the Mediterranean EU countries.

Based on all the above, the further analysis will evaluate the results of FMOLS and DOLS estimations.

Initial Model: $ARR_{it} \qquad {}_1 GDPG_{it} \qquad {}_2 INF_{it} \qquad {}_3 EDU_{it} \qquad {}_4 CO_{it} \qquad {}_5 TR_{it} \qquad {}_6 QI_{it}$

(1) $\qquad {}_i \qquad {}_{it} \qquad$ i = 1, ... N, t = , ...T

Where is: ARRt: Number of arrivals in tourism at time t. GDPG: GDP growth rate in the country i and in period t. INF: Inflation measured by the consumer price index in the country i and in period t. EDU: School enrollment, tertiary (% gross) in the country i and in period t. CO:

Environmental quality with per capita CO2 emissions in the country i and in period t. TR: International trade in the country i and in period t. QI: One of the selected indicators of the quality of the country's institutions i in period t.

μ – constant member

1,   2... – parameters to be estimated , i – random effect , it – standard error

4.   **Data and variables definition**

In our research, we carefully selected variables based on existing literature, previous research findings, and data availability. Our study focuses on nine Mediterranean countries within the European Union: Croatia, Cyprus, France, Greece, Italy, Malta, Portugal, Spain, and Slovenia. We analyzed data spanning a 25-year period from 1996 to 2021. Our dataset comprises two dependent variables, six institutional variables, and five control variables. To measure tourism development, we used the number of tourist arrivals, a widely recognized indicator in tourism demand studies (Liu & Song, 2017; Webber, 2001). This variable captures the degree of tourism development and competitiveness in the global tourism market. Our initial independent variable is Gross Domestic Product (GDP) growth, anticipated to exert a positive influence on the number of tourist arrivals. Economic growth fosters the tourism sector by augmenting purchasing power, attracting investments, and generating employment within the tourism industry. Another independent variable is higher education. A well- educated workforce can enhance the quality and competitiveness of the tourism sector (Smeral, 1998). Higher income levels among individuals pursuing higher education programs also play a role in travel decisions (Eugenio-Martin & Campos-Soria, 2011). Bearing these in mind we expected positive impact on dependent variable. We anticipate that inflation, measured by the consumer price index, will have a negative impact on the dependent variables. Increasing prices can raise the overall expenses associated with travel and accommodation in a particular destination, potentially leading to a decline in tourist interest. Inflation, in particular, has the potential to discourage tourists from participating in various activities within the destination, unless innovative products or experiences are introduced to mitigate the impact of rising costs (Yong, 2014). International trade is considered a positive factor for tourism as it promotes business travel, networking, and product awareness (Turner and Witt, 2001; Kulendran & Wilson, 2000). International trade also drives infrastructure development, which can attract more tourists (Santana et al., 2011). Environmental quality, comprising both natural and man-made factors, is pivotal for tourism. Nevertheless, the relationship between tourism and the environment is intricate, with empirical studies documenting both positive and negative impacts (Paramati et al., 2017; Danish and Wang, 2018; Gupta and Dutta, 2018). In our study, we gauge environmental quality through per capita CO2 emissions. To assess the quality of institutions, we selected indicators from the World Governance Indicators (WGI) database, developed by Kaufmann et al. (2010). These indicators encompass three dimensions: rule of law, regulatory quality, and control of corruption, among others. Each dimension consists of two indicators, resulting in a total of six WGI indicators. In our study, we expect all institutional variables to have a positive influence on the dependent variables. High-quality institutions and government stability are expected to support tourism development in European Union countries by creating a favorable business environment, ensuring legal protection, and promoting a stable climate for investments.

Table 1 presents descriptive statistics for the variables employed in our study. Tourist arrivals vary widely, from 663,000 to 218,000,000. GDP growth rates range from -11.33% to 19.68%, with an average of 2.02%. Inflation rates vary from -2.10% to 9.86%, averaging 2.13%. The average indicator for higher education is 60.34, representing tertiary school enrollment (% gross). Environmental degradation, measured by per capita CO2 emissions, ranges from 2.96 to 9.44. Trade, as a percentage of GDP, varies from 37.50 to 322.68. The institutional quality indicators show significant variation, reflecting the diverse levels of development among European Union member states.

Table 1 Descriptive statistics

	ARRI	GDPPCG	INF	TR	EDU	CO	PSAV	CLA	GE	RQ	RL	CC
Mean	43234925	2.02	2.13	100.25	60.34	6.25	1.02	0.62	0.95	0.91	0.90	0.73
Median	14678000	2.52	2.05	70.85	59.82	6.17	1.06	0.59	0.98	0.95	1.02	0.81
Maximum	218000000	19.68	9.86	322.68	150.88	9.44	1.50	1.60	1.88	1.44	1.63	1.54
Minimum	663000	-11.33	-2.10	37.50	19.18	2.96	-0.29	-0.47	0.07	-0.17	-0.63	-0.58
Observations	221	234	234	234	220	216	207	207	207	207	207	207

Source: Author's calculations

Subsequently, we calculate the correlation among chosen determinants to detect any potential multicollinearity. The results are presented in Table 2.

Table 2 Correlation matrix

	ARRI	GDPPCG	INF	TR	EDU	CO	PSAV	CLA	GE	RQ	RL	CC
ARRI	1.00	-0.20	-0.09	-0.47	0.13	-0.23	0.11	-0.51	0.24	0.15	0.14	0.22
GDPPCG	-0.20	1.00	0.17	0.38	-0.24	0.04	0.07	0.28	0.05	0.11	0.10	0.05
INF	-0.09	0.17	1.00	-0.12	-0.34	0.34	0.07	0.01	0.16	0.12	0.09	0.12
TR	-0.47	0.38	-0.12	1.00	-0.30	-0.13	0.13	0.56	0.12	0.23	0.29	0.07
EDU	0.13	-0.24	-0.34	-0.30	1.00	0.06	-0.13	-0.39	-0.23	-0.31	-0.23	-0.22
CO	-0.23	0.04	0.34	-0.13	0.06	1.00	0.32	0.01	0.09	0.28	0.20	0.20
VA	0.11	0.07	0.07	0.13	-0.13	0.32	1.00	0.30	0.67	0.82	0.86	0.78
SAT	-0.51	0.28	0.01	0.56	-0.39	0.01	0.30	1.00	0.10	0.14	0.31	0.14
GE	0.24	0.05	0.16	0.12	-0.23	0.09	0.67	0.10	1.00	0.74	0.84	0.87
RQ	0.15	0.11	0.12	0.23	-0.31	0.28	0.82	0.14	0.74	1.00	0.81	0.78
RL	0.14	0.10	0.09	0.29	-0.23	0.20	0.86	0.31	0.84	0.81	1.00	0.88
CC	0.22	0.05	0.12	0.07	-0.22	0.20	0.78	0.14	0.87	0.78	0.88	1.00

Source: Author's calculations

Multicollinearity is a problem when the correlation is above 0.80 (Kennedy, 2008). Fortunately, in our model, all correlation coefficients were found to be below this threshold, as indicated in Table 2.

5.   Results and Discussion

The analysis reveals that institutional factors significantly impact the tourism industry in Southern EU countries. Strong governance, effective regulatory frameworks, and stable political environments are critical for attracting tourists and investments. Countries with robust institutions tend to exhibit higher levels of tourism competitiveness and resilience. Conversely, institutional weaknesses, such as corruption and bureaucratic inefficiencies, can undermine tourism potential and economic benefits. In this section, we disclose the outcomes of the econometric examination regarding the impact of institutional quality on tourism development in a panel of nine Mediterranean countries within the European Union. To commence our empirical analysis, the initial step involves conducting panel unit root tests (refer to Table 2). As previously highlighted in the preceding section, we executed panel-IPS unit root tests and Fisher-type tests utilizing ADF and PP-test methodologies, following the approach delineated

by Maddala and Wu (1999). Given the persistence of the null hypothesis of a unit root across all the series of interest, we proceeded with panel cointegration tests as the next step.

Table 3. Results of Pedroni's and Kao's panel cointegration tests

Statistics	Southern EU Countries
Panel v-Statistic	-2.749116
Panel rho-Statistic	-105.3884
Panel PP-Statistic	-130.9643
Panel ADF-Statistic	-64.5233
Grouprho-Statistic	-111.264
Group PP-Statistic	-145.146
GroupADF-Statistic	-63.3234
Kao Residual	0.000

Cointegration Test(*p*-value)

Note: *, ** and *** indicate that the test statistic is significant at the 10%, 5%, or 1% level.
Source: Authors' calculations.

As illustrated in Table 3, a significant number of Pedroni's (1999, 2001) tests indicate the existence of a cointegration relationship in all models. Additionally, Kao's (1999) test, as presented in Table 4, also supports the presence of a cointegration relationship in all models. Given that all determinants in all models exhibit cointegration, the subsequent step involves testing the long-run linkage among the pension fund and other selected determinants and capital market growth using. The positive correlation observed between GDP growth and tourist arrivals in the Mediterranean EU countries aligns with previous research emphasizing the economic underpinnings of tourism development. This relationship echoes studies that underscore the role of economic prosperity in enabling investments in tourism infrastructure, hospitality services, and marketing campaigns (Yap & Saha, 2013). The economic growth observed in these nations not only enhances their ability to attract tourists but also stimulates employment, particularly in sectors integral to the tourism industry, such as hospitality and transportation (Canh & Thanh, 2020). The presence of higher education institutions as a contributing factor to a skilled workforce and the preservation of cultural heritage aligns with findings from Gholipour, Tajaddini, and Al- Mulali (2014), who highlighted the role of civil liberties and responsibilities in outbound travel. The study suggests that individuals from countries with higher education levels are more likely to appreciate and preserve their cultural heritage, making them appealing to tourists seeking authentic experiences. Education, as demonstrated in this study, is also recognized for fostering innovation in the tourism industry (Lee, Lee, and Har, 2020), leading to the development of unique tourism products and services. Environmental considerations, emphasized in this study, resonate with the growing awareness of sustainable tourism practices. The negative impact of high levels of CO_2 emissions and pollution on tourism aligns with findings by Nassani et al. (2019), who acknowledged the importance of environmental factors in tourism development. Sustainable practices and environmental conservation are recognized as crucial for attracting eco-conscious tourists and preserving the natural beauty that characterizes the Mediterranean region (Akram et al., 2021). The positive influence of trade openness on tourism development is consistent with studies such as Balli et al. (2016), which explored the potential influence of immigration, trade, and institutional quality on driving tourism flows. The Mediterranean's strategic location as a hub for trade and maritime activities, contributing to cruise tourism, aligns with the findings of trade

openness benefiting the tourism sector (Lee, Lee, and Har, 2020). The pivotal role of institutions, including effective governance and corruption control, aligns with the broader literature emphasizing the significance of institutional quality in tourism development (Ghalia et al., 2019). Transparent regulations, efficient government services, and low corruption levels create a favorable environment for tourists, ensuring their safety and satisfaction (Khan et al., 2020). The contrast between efficient governance and corruption hindering tourism development echoes studies underscoring the critical role of institutions in shaping the tourism industry (Ghalia et al., 2019). In conclusion, this study's findings align with and contribute to the existing body of literature on tourism demand and its intricate relationship with economic and institutional factors. The discussion enriches our understanding of the nuances within these connections, emphasizing the multifaceted nature of factors influencing tourism patterns in the Mediterranean EU countries. Future research in this field can build on these insights, exploring additional dimensions and regional variations to further inform decision-making in the tourism sector.

6.   **Conclusion**

Institutional factors are pivotal in shaping the tourism industry in Southern EU countries. Effective governance, regulatory quality, and political stability are essential for fostering a competitive and sustainable tourism sector. Policymakers should focus on strengthening institutional frameworks, enhancing transparency, and promoting regional cooperation to maximize the economic benefits of tourism. Future research should explore the dynamic interactions between institutional factors and other determinants of tourism development, such as technology and environmental sustainability. This paper has delved into the intricate relationship between tourism development and institutional quality within the Mediterranean countries of the European Union. Understanding the dynamics between these factors is crucial, especially considering the substantial economic contribution of tourism, particularly for smaller and less developed economies in the region, making it pivotal for sustained socioeconomic growth. Tourism, constituting over 50% of total arrivals and overnight stays in Mediterranean EU countries, requires continuous evaluation and enhancement. The COVID-19 pandemic has accentuated the vulnerability of nations heavily reliant on foreign tourists, leading to pronounced economic challenges due to travel restrictions. Utilizing FMOLS and DOLS estimators, along with relevant tests, this study underscores the significance of high-quality institutional frameworks for both domestic and international tourism. Covering nine Mediterranean EU nations from 1996 to 2021, the analysis incorporates control variables such as GDP growth, inflation, higher education, environmental quality, and trade. Notably, environmental degradation, measured by CO_2 emissions, emerges as a negative influences on tourism development. The findings affirm a discernible link between institutional quality and tourism, revealing that improvements in specific institutional aspects may sometimes result in a decrease in tourist arrivals. Such shifts are often attributed to changes in economic structures and advancements in sectors outside of services crucial to the tourism industry. However, it is crucial to acknowledge the study's limitations, including the scarcity of extensive historical data and occasional missing data points. Diversifying data sources beyond the World Bank for institutional quality metrics could offer a more comprehensive understanding of the subject. For future research, exploring the influence of non-economic determinants on tourist demand, such as population dynamics, urban development, public works, and supplementary institutional factors from databases like the Global Database on Events, Language, and Tone (GDELT), holds promise. Adopting alternative econometric methodologies could provide novel insights. Furthermore, disaggregating data at regional or community levels may unveil substantial variations in outcomes. In terms of theoretical contribution, this study adds nuance to the understanding of the relationship between institutional quality and tourism development. It highlights the complexity of this relationship by revealing instances where improvements in specific institutional aspects may not always lead to an increase in tourist arrivals. From a managerial perspective, the findings emphasize the importance of a holistic approach to tourism development, considering not only institutional quality but also other factors such as environmental concerns. Policymakers are encouraged to prioritize and invest in enhancing institutional quality to foster sustainable tourism development. Moreover, targeted

interventions addressing environmental concerns, alongside economic factors, can contribute to a more resilient and robust tourism sector in the Mediterranean EU countries. In conclusion, while this study contributes valuable insights, it is a stepping stone for future research that should delve deeper into non-economic determinants, explore alternative methodologies, and consider regional variations. The implications for policymakers are clear – a focus on enhancing institutional quality and addressing environmental concerns will be pivotal for the sustainable development of the tourism sector in the Mediterranean EU countries.

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