

# ISSUES AND PROSPECTS OF TOURISM DEVELOPMENT IN LATVIA IN THE CONTEXT OF THE EUROPEAN INTEGRATION

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## Annotation

*The research provides an analytic overview of the main trends and prospects of tourism development in Latvia in the context of its integration into the common tourism market of the European Union. The purpose of this study - to identify the development problems of tourism in Latvia as a factor of regional competitiveness. The basic tendencies of forming and development of the tourism industry in Latvia and Europe, public policy in the field of tourism development are considered. Direct and overall contribution of the impact of tourism on the state's economy is shown. The basic issues of tourism business development in Latvia and factors impeding and developing the tourism sector in Latvia, such as: the level of prices on the international market, level of welfare of the population, safety of travel, geographical and territorial location of the country, climate, environment and other, are investigated. Based on the research findings, proposals to improve Latvian tourism are made.*

**Key words:** Latvia, tourism, problems, prospects, European integration

## Introduction

Tourism is an important industry in most countries around the world. In the world market, tourism takes a leading position in the export of services that indicates the competitiveness and dynamic development of this industry.



Fig.1. Income from exports by category.  
Source: World Tourism Organization UNWTO (2018)

Tourism is the world's third largest export category after chemicals and fuels, and ahead of automotive products and food. All over the world, tourism has been assigned a special importance, since this area is a priority in the share of GDP of states. In many countries and regions, tourism is the main source of income. As to the number of employees, the tourism industry has also become one of the largest in the world: it employs more than 260 million people, that is, every 10<sup>th</sup> job holder. On a global scale, income from tourist trips makes up more than \$ 500 billion annually. The greatest profits are received by the countries of Western Europe and the USA.

The accession of Latvia to the European Union has opened up great opportunities for the state, including in the tourism sector. According to the statistical figures of the Central Statistical Bureau of Latvia and based on the indicators of the Association of Latvian Travel Agents, as well as the European Travel Commission, until recently has been a positive trend in the development of the tourism industry in Latvia.

According to the World Travel & Tourism Council, the contribution of Latvia's tourism industry to the country's GDP amounted to 665.6 million euros or 2.9% of the total GDP in 2013. However, in recent years, expenditure by foreign tourists in Latvia has declined, although the number of tourists has increased. The stay of tourists in Latvia is relatively short - only a quarter of tourists stay in the country for more than one day. A decrease in Latvia's international

competitiveness in tourism is also reflected by decrease in its Travel and Tourism Competitiveness Index score: in 2017, Latvia ranked 54th out of 136 countries, compared to 48th in 2013. (Kā attīstīt tūrismu Latvijā?, 2018).

A problem of competitiveness of regional economy is rather pressing in today's world. A great deal in economic and social life of both the region and the country as a whole depends on the successful solution to this problem.

Nowadays, the study of regional tourism policy is irrelevant due to:

- priority tasks of domestic and inbound tourism development, requiring effective implementation of the tourism potential of the country;
- ensuring the integration of interests of the state and its regions in the development of tourism;
- prevention and overcoming of socio-economic contradictions between the traditional economy and the tourism function in the development of regions.

**The purpose of this study:** to identify the development problems of tourism in Latvia as a factor of regional competitiveness.

**The objectives of this study are:**

1. To show the importance of tourism sector in the EU and Latvia;
2. To identify the factors hindering and developing the tourism industry in Latvia;
3. To develop proposals for improving the state policy in the field of tourism.

The formulation of these objectives determined the **subject** of the study of this work. The subject of the study is an analysis of trends in tourism development in Latvia in the context of its integration into the EU. The **object** of the research is the tourism industry in Latvia.

### Research methodology

As the basis of scientific research is used the process approach to the analysis of socioeconomic development of tourism industry of Latvia in modern conditions in the EU integration. The studies are based on the methodology of system analysis, involving the structural-functional approach of allocating objects in the system of structural elements and defining their roles (functions) in the system. We used scientific methods, such as systemic and situational approach, structure and comparative analysis.

### Results and discussion

The theoretical and methodological foundations of the concept of competitiveness of a region and a country are considered in the works of many authors: W. Steinle (1992), P. Cheshire and I. Gordon (1998), M. Storper (1995, 1997), R. Camagni (2004), M. Porter (2008), I. Judrupa and M. Shenfelde (2011), etc. The concept of regional competitiveness is based on how efficiently the available resources are used in the region. According to M. Porter, the only thing that the concept of competitiveness at the regional level can be based on is the productivity of the use of resources (Porter, 1987).

The relevance of tourism as a factor of regional competitiveness and the subject area of the state's regional policy is determined by the fact that its development issues require state regulation and are solved at the national and regional level, based on the goals and objectives of the state at this stage of society development, which, in fact, determine the state's tourism policy. A number of works by both foreign and Latvian authors such as Saarinen, J. (2007), Goeldner, C.R. and Ritchie, J.R.B., (2012), Mason, P. (2003), Lickorish, L.J. and Jenkins, C. L. (1997), Dobrica Z. J. (2016), Bērziņa, I. (2012), Klepers, A. (2013), Ziemeļe, A. (2017) and others are devoted to theoretical basis of tourism and national state policy development. The situation becomes complicated by the fact that tourism as a subject area of research is not represented by special, stand-alone science. The question is raised about the differences in approaches to tourism from the point of view of theoretical science and applied research (Ritchie, Lorn & Seldjan, 2008). Moreover, formation of tourism as a science is one of the debate issues within scientific research topics in this area. The science of tourism uses many theoretical methods, concepts, patterns that are valid in other sciences like economics, management, marketing, sociology, psychology, etc. Today, the science of tourism has a non-systemic nature, it combines diverse knowledge from a variety of sciences. Conversely, the subject matter of any branch science (tourism economics, tourism management, tourism marketing, tourism history, tourism psychology, etc.) is associated with a specific subject area of tourism research.

Taking into account current targets in the development of national tourism, the regional aspect of the national tourism policy should be emphasized. Only through the use of the state

regional policy tools conditions for the realization of tourism potential are created, since tourist destinations are dynamic systems and need to be managed to maintain their competitiveness (Christian, 2016).

### Tourism Development in Europe

Europe is positioning itself as the most visited region in the world, where more than half of international tourists arrives. In 2018, the number of arrivals increased by 35.5 million, reaching a total of 710 million visits. As the result, tourism has become one of the main factors of economic recovery after the crisis in Europe (+ 5%) (Fig. 2).

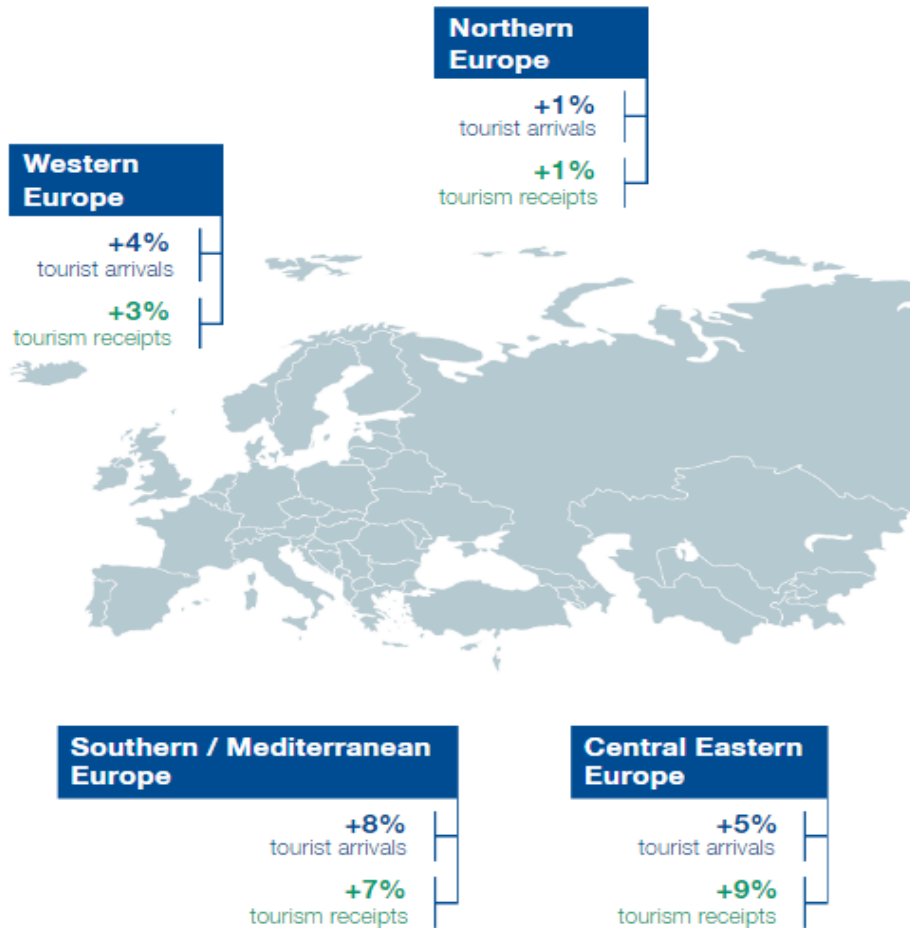


Fig. 0. Arrival of foreign tourists, 2018, %  
Source: World Tourism Organization UNWTO (2019)

The growth was driven by the Southern and Mediterranean Europe (+8%), while Northern Europe showed more modest result (+1%). Regarding arrivals to Central and Eastern Europe (+5%) and Western Europe (+4%), was observed average result in both subregions.

Travel and tourism are an important economic activity in most countries around the world; through annual studies the direct contribution of the tourism sector to the GDP of countries is calculated. The World Travel & Tourism Council admits that the contribution to tourism has both direct and indirect impacts, as shown by its annual studies (Fig. 3, 4).

**The direct contribution** of travel and tourism is characterized by such sectors as hotels, airlines, airports, travel agencies and recreation areas, which are directly involved in tourism. The direct contribution of travel and tourism to GDP reflects the internal expenses of residents and non-residents.

**The total contribution** of the tourism sector is calculated taking into account the indirect impact on the economy, which includes such areas as jobs, investment costs, marketing and promotion of tourism, management, procurement of goods by sector, security services, IT services, catering services and other services that serve the tourism industry.

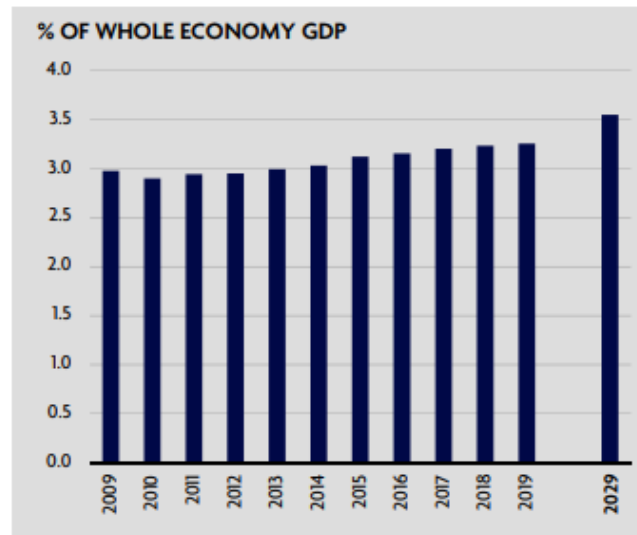


Fig. 3. World: direct contribution of travel & tourism to GDP  
Source: WTTC Travel & Tourism Economic impact (2019)

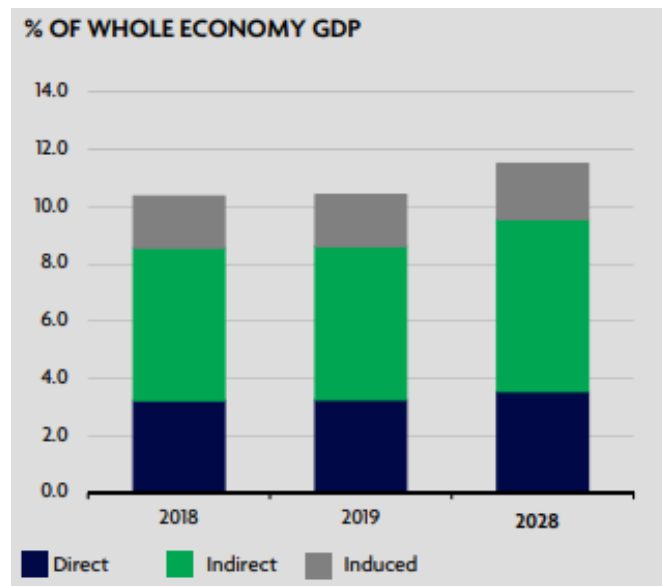


Fig. 4. World: total contribution of travel & tourism to GDP  
Source: WTTC Travel & Tourism Economic impact (2019)

The direct contribution of Travel & Tourism to GDP in 2018 was USD2,750.7bn (3.2% of GDP). This is forecast to rise by 3.6% to USD 2,849.2bn in 2019. This primarily reflects the economic activity generated by industries such as hotels, travel agents, airlines and other passenger transportation. The direct contribution of Travel & Tourism to GDP is expected to grow by 3.6% pa to USD 4,065.0bn (3.5% of GDP) by 2029. The total contribution of Travel & Tourism to GDP is three times greater than its direct contribution. (WTTC Travel & Tourism Economic impact, 2019)

### The Tourism Industry in Latvia

For Latvia, tourism is a very important sector, since it not only shapes the image of the state, but also develops the national economy directly. As of 2017, tourism accounted for 17% of all services rendered in the country, providing jobs not only for tour operators but also for hotels, restaurants, transport industry, ferry lines, airlines and airports.

Despite all the above facts, according to the studies of *The Travel & Tourism Competitiveness Index Ranking 2019* Latvia ranks only 53<sup>rd</sup> in the competitiveness in the travel and tourism industry among 140 countries. For comparison, Estonia ranks 46<sup>th</sup>, while Lithuania ranks 59<sup>th</sup> (The Travel & Tourism Competitiveness Index Ranking, 2019).

# Latvia

54th / 136

Travel & Tourism Competitiveness Index 2017 edition



## Key Indicators

Sources: World Tourism Organization (UNWTO) and World Travel and Tourism Council (WTTTC)

International tourist arrivals	2,023,500	T&T industry GDP	US \$1,116.4 million
International tourism inbound receipts	US \$895.6 million	% of total	4.1%
Average receipts per arrival	US \$442.6	T&T industry employment	36,570 jobs
		% of total	4.1%

## Performance Overview

Key Score - Highest score

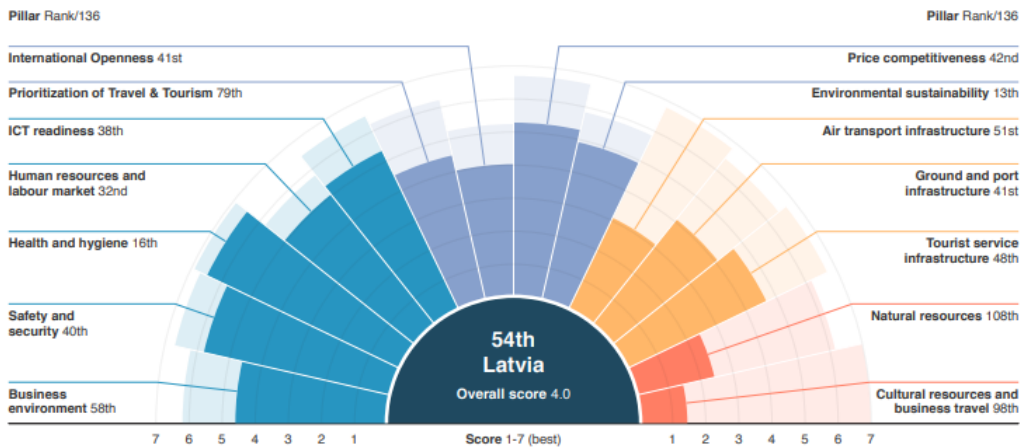


Fig. 5. Ranking of Latvia's competitiveness in the tourism industry  
Source: The Travel & Tourism Competitiveness Index Ranking (2019)

In its statistical studies, *Eurostat* shows the impact of the tourism industry on various sectors in the EU.

According to the forecasts of the *World Travel & Tourism Council*, significance of the tourism industry for the Latvian economy will increase in importance.

According to the Central Statistical Bureau of Latvia, foreign visitors crossed the border of Latvia more than 44.6 million times in the post-crisis period from 2011-2018. In hotels and other places of accommodation, more than 11.6 million foreign guests were served, who in turn spent 23.3 million nights on the territory of the country (table 1):

Table 1

### Dynamics of visits to Latvia by foreign guests in the post-crisis period (2011 - 2018)

Years/ Indicators	Number of border crossings by foreign guests		Number of people serviced in hotels and other places of accommodation for foreign guests		Number of people, who spent nights in hotels and other places of accommodation for foreign guests	
	thousand peoples	%	peoples	%	peoples	%
2011	5 538	100	1 063 294	100	2 257 021	100
2012	5 569	100.6	1 096 274	103.1	2 429 093	107.6
2013	5 822	104.5	1 249 814	114.0	2 639 434	108.7
2014	6 246	107.3	1 431 038	114.5	2 875 934	109.0
2015	6 842	109.5	1 474 765	103.1	2 873 885	99.9
2016	6 797	99.3	1 573 632	106.7	3 044 532	105.9
2017	7 726	113.7	1 778 973	113.0	3 406 527	111.9
2018	7 775	100.6	1 925 397	108.2	3 742 966	109.9

Source: CSB of Latvia

In 2018, 1.9 million multi-day tourists visited Latvia, which is 0.2% less than in 2017, spending 516.7 million euros or 3.2% less. The total number of nights spent decreased by 11.3% compared to the previous year, reaching 7.9 million nights. The average length of stay was 4.0 nights, which is 0.5 days less than in 2017. Compared to 2017, last year the number of guests from neighboring countries increased slightly: by 5.3% from Lithuania and by 5.2% from Estonia. At the same time, despite anti-Russian sanctions, the number of guests from Russia increased by 7.3%. and from Belarus by 4.7%. The growth of travelers increased: by 10.1%

from the USA, by 15.8% from Denmark, by 16.5% from France, by 18.8% from Poland, by 15.6% from Sweden, by 8.7% from Germany, by 13.5% from the United Kingdom, and from Italy by 5.2%. The number of tourists from Norway and Finland slightly decreased -by 5.6% and by 0.3% (Tourism in Latvia 2019).

In 2018, according to the Central Statistical Bureau, the number of tourists served in hotels has increased for all the major tourism markets represented in Latvia, with the exception of Norway and Finland. In 2018, 75.7% of all foreign tourists served in Latvian hotels gave preference to Riga hotels, and an increase compared to the last year was 9.9%. The majority of guests were from France (23.4%), Poland (21.2%), the USA (16.5%), the United Kingdom (16.0%), Germany (7.9%), Russia (7.4%) (Tourism in Latvia 2019).

### Factors hindering and developing the tourism industry in Latvia

Any area of activity operating on the territory of the country depends on the geographic location of the state, economic and social environment. *All these factors can have both developmental and retarding effect on the tourism industry.*

#### ▪ Price level in the international market

Prices for services affect the availability and choice of consumers of a particular recreation area. To date, there is a huge selection of offers available to travelers, so it is very important to trace and control price policy in the country.

The price level in the international market affects not only the choice of travelers, but also has an impact on the consumption of services and goods by Latvians.

*Riga turned out to be one of the most expensive cities in the post-Soviet area.* Among the most expensive cities in the world for tourists and business travelers, Riga visibly overtakes not only the capital of Estonia, Belarus, Lithuania and Poland, but also, for example, German Stuttgart and Russian St. Petersburg. This is evidenced by the results of a study by the consulting company *Mercer Human Resource Consulting*.

Assessing expensiveness of cities, *Mercer Human Resource Consulting* took into account the cost of renting accommodation and buying food, transportation, meals, clothing, household goods and entertainment.

In the list of the most expensive cities compiled by *Mercer*, Riga ranked the 111th in 2019, Tallinn ranked the 140th, and Vilnius - the 152nd. (Cost of living city ranking, 2019).

#### ▪ Welfare level of population

The level of welfare of the population directly affects consumption of goods and services, influences demography and emigration. These factors have an impact also on the tourism industry. A negative dynamics of demography and emigration exist in Latvia.

The welfare level of the population directly depends on the level of income, GDP per capita. According to the public statistics of Eurostat, GDP per capita varies in a very wide range in the EU countries - from poor to rich countries (Fig. 6). Latvia's GDP per capita is 11,600 euros a year, while the average GDP per capita in the EU and the euro area is 25,700 and 28,600 euros, respectively.

The income level of Latvian inhabitants is 29% of the EU average:

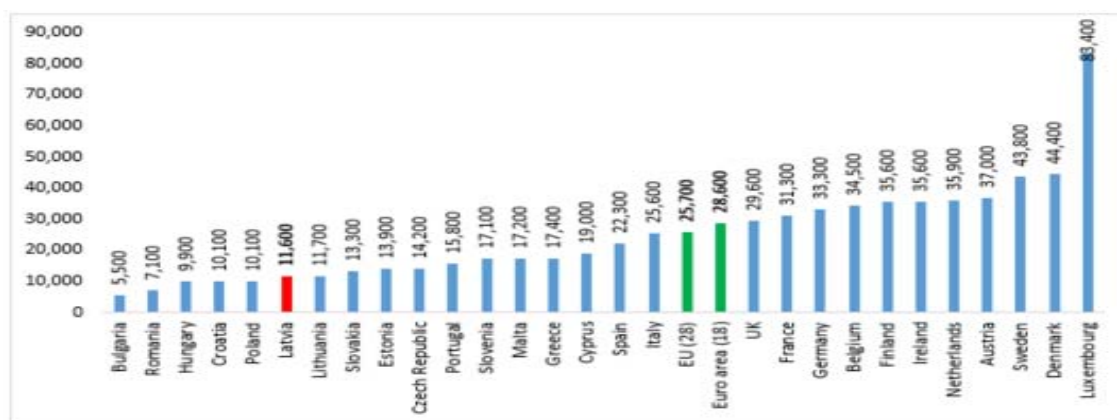


Fig. 6. GDP per capita in the EU  
Source: Eurostat

▪ **Attractiveness for investors**

*Investors face a number of serious problems that hamper the flow of investment.* First of all, this is a shortage of skilled labor, insufficient level of education, inadequate skills of workers to the requirements of employers. Apart from that, investors stressed the insufficient effectiveness of the judicial and the tax systems.

According to the *executive director of the Foreign Investors' Council in Latvia Girts Greiskalns*, it is necessary to reduce labor taxes in order to increase labor productivity in Latvia. The remaining taxes roughly correspond to the average in Europe. (Dojkin, 2015).

The total amount of investments gradually decreasing in Latvia, new investors do not emerge, and the old ones decide to reduce their presence.

According to the results of the survey conducted by *SEB Banka* (Baltic Business Outlook, 2015), business in Latvia over the past few years has also reduced the willingness to invest its business (Fig. 7). While in 2013, 54% of businessmen in the Baltic countries were ready to invest in their business, then, in 2014 only 37% of entrepreneurs had such plans, and this year, only 28% of Latvian entrepreneurs are ready to implement investment projects.

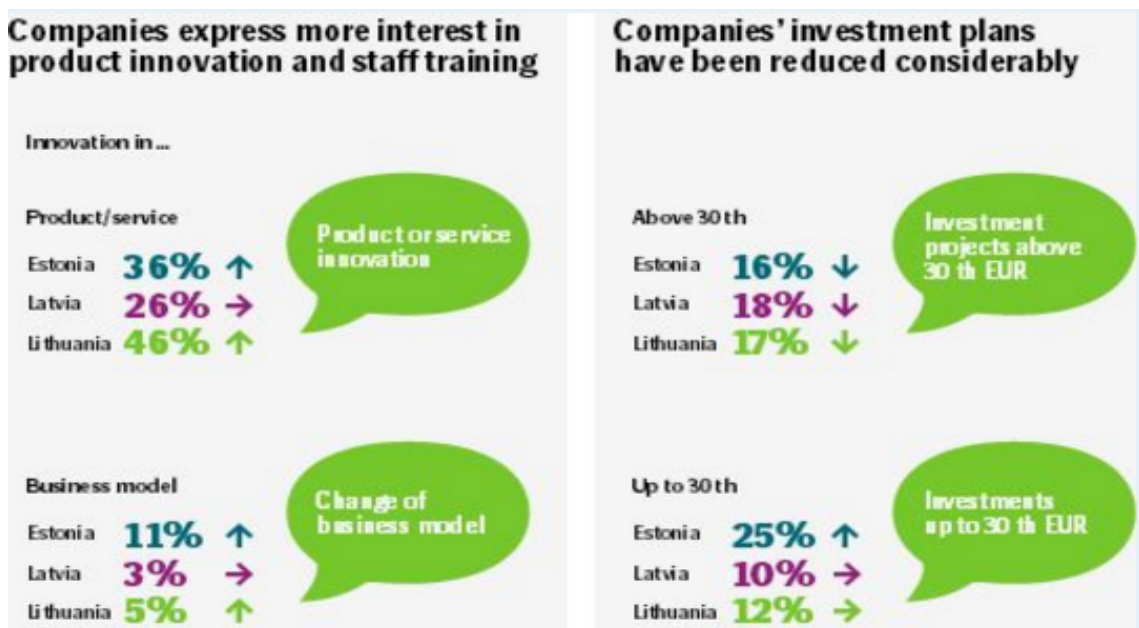


Fig. 7. Readiness of entrepreneurs in the Baltic countries to invest in their business  
Source: SEB Banka

**Safety of travel**

Often, as an indicator for safe travel we view remoteness or proximity of the state to the "hot spots", criminogenic atmosphere in the country, tolerant attitude of citizens to visitors. *Latvia, like any other EU country, is considered a safe zone for travelers.*

Latvians have moderate mentality, and Latvia has a great advantage as the European country with its multilingualism. Knowledge of English and Russian is common in Latvia.

*The negative factor of safety for travelers in Latvia and Riga is the arrival points of tourists: the bus station and the railway station.* Unpleasantness of these places can be felt especially in the evenings: untidiness, a large number of suspicious subjects, weak security. All these factors have a negative impact on the first impression of new arriving tourists and on their perception of security in the future.

*Territorial and geographical location of the country, climate, ecology and historical and cultural heritage of the state. Factors that have a developmental impact on tourism:*

**Territorial and geographical location of the country**

Latvia is located on the border of the CIS countries and Western Europe. In the north it borders with Estonia, in the east with Russia, in the south with Belarus and Lithuania, in the west it is washed by the Baltic Sea, which gives direct access to the Scandinavian countries. Due to its geographical location, Latvia has the advantages of quick access, the railway and bus services to Russia are well developed. Air traffic with major European capitals is also well developed.

### Climate

Latvia is located in a temperate climatic zone, weather conditions are shaped by the Atlantic air masses, the Baltic Sea and the Baltic Gulf. There are clearly expressed four moderate seasons are throughout the year in Latvia, very favourable for physical and psychological health.

### Ecology

Lack of industrial enterprises and congested highways favorably affects the overall natural and ecological state, including the atmosphere of cities. This makes the country suitable for ecological tourism.

In 2010, the *Center for Environmental Law and Policy* of Yale University, together with the *Center for the International Earth Science Information Network* of Columbia University, compiled an EPI for a visual rating of the most successful countries in achieving "The Millennium Development Goals 2015".

*EPI (Environmental Performance Index)* is a methodology for enumerating and statistical initialization of the country's environmental indicators, taking into account its green policy. In 2012, according to the assessment of green longevity, Latvia occupied an honorable second place, immediately after Switzerland with an estimate of 70.37, while based on calculations for 2018 Latvia got an estimate of 66.12 and fell to the 37th place among 180 countries (Fig. 8).

*EPI* relies on an assessment system based on two factors: ecological rationality and *Ecosystem Vitality*.

## Country Profile LATVIA



2018 EPI Country Rank (out of 180)

**37**

EPI Score [0=worst, 100=best]

**66.12**

Population (millions)

2.0

Land Area (sq. km)

62,180

GDP (PPP 2011\$ billions)

46.5

GDP per capita

23,718

SDG Index\*

75.2

Fig. 8. Environmental Performance Index for 2018  
Source: Environmental Performance Index (2018)

The ecosystem vitality consists of points assessing increase in natural resources, impeccable environmental conditions and biodiversity. In addition, *Environmental Health* reflects such complex issues as unsanitary water sources, air pollution and diseases.

### Historical and cultural heritage of the state

Latvia is divided into several historical and cultural regions that have many natural parks, various monuments of architecture and sights with long traditions of cultural ties and with diverse national and religious composition of the population.

The cultural heritage of Latvia includes 3,364 monuments of architecture, 2,495 archaeological monuments, 2,414 monuments of art, 44 territorial and town-planning monuments, as well as 111 historical monuments. They form the whole of the Latvian heritage of architecture, archaeology (including underwater), monumental, sacred and applied art, science and technology. The list of cultural monuments of national importance in Latvia includes 1,248 monuments of architecture, 1,481 archaeological monuments, 2,243 art monuments, 39 territorial and town-planning monuments and 109 historical monuments. (Latvia. Properties inscribed on the World Heritage List, 2019).

### Conclusions

Tourism occupies one of the most important places in the economy of Latvia. Geography of international tourism in Latvia is diverse, and Riga in turn has a good tourism market in the tourism and recreational industry of the world. Latvia is rich in its natural objects and sights of both historical and cultural as well as religious character. Now, the infrastructure of Latvia has been developing and represents a system that fully operates on the international tourism market and is able to provide a tourist product to its consumers - tourists who have visited the country. The Ministry of Economics plans to allocate more than 20 million euros to the development of Latvian tourism in the upcoming years.



In European tourism industry, competition has significantly increased recently, which determines the need to differentiate tourist products and services and effectively position a final destination of travel in the tourism market. Creation of a new image of Latvian tourism outlines a future direction in which it is necessary to create Latvian tourist products using available tourism resources and creating added value for them.

The emergence of and opportunity for developing new types of tourist activity in Latvia will be determined by the following factors (Truchet, Piguët, Aubert & Callois, 2016):

- the nature of and commitment to the national tourism strategy by the government and the tourism industry;
- the ability of local community to meet expectations of international visitors with respect to service and quality of tourism services;
- the nature, distribution, quality and location of landmarks, especially in relation to the main centers of accommodation and services, transport hubs;
- transport accessibility and mobility in the region;
- further development of image of the region within territorial marketing strategies.

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