Economic aspects of tourism in India

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ABSTRACT *Travel & Tourism is an important economic activity in most countries around the world. The industry has significant indirect and induced impacts. Since the last few years, Indian tourism industry has been growing at a rapid pace and has exhibited a vast potential for generating employment, earning foreign exchange thereby uplifting the economy.The paper critically analyses the tourism industry in India and portrays its relative strengths as well as weaknesses. A comprehensive data based study is conducted to evaluate the impact of tourism on Indian economy. Quantitative tools and secondary data are used for the same. Regression analysis is also performed by taking Foreign Tourist Arrivals (FTA) as the dependent variable and contribution to GDP by tourism sector as the independent variable. It is further assumed that the GDP of tourism industry in the previous year augments to the investment in the present year or GDP generated by the tourism industry is re invested next year in the same industry. Paper highlights the substantial need of boosting the tourism sector in India. It also presents an overview of the existing government policies and regulations formulated in this regard.*

Keywords*: FTAs, FEE, GDP, ANOVA*

Introduction:
India has achieved an exponential growth pattern in the tourism industry and has become a preferred location for overseas travellers. A rich, diversified heritage and stimulating flora and fauna has played a crucial role in attracting tourists across the globe. According to the Indian estimates, Indian tourism industry has outshined the global tourism industry in terms of growth, revenue and volume of tourist arrivals. India's travel and tourism sector ranks 7th in the world in terms of its total contribution to the country's GDP, according to a new report of the World Travel and Tourism Council (WTTC). The importance of tourism as an instrument for economic growth and employment generation, particularly in remote and backward areas, has been well recognized world over. It is the largest service industry globally in terms of gross revenue as well as foreign exchange earnings. Tourism plays an effective role in achieving growth with equity objectives. The tourism literature suggests that the expansion on tourism sector can contribute to long-run macroeconomic performance of developing countries. India has demonstratedgreat potential for the expansion of tourism industry which can become a catalyst for the long-run socio-economic growth.

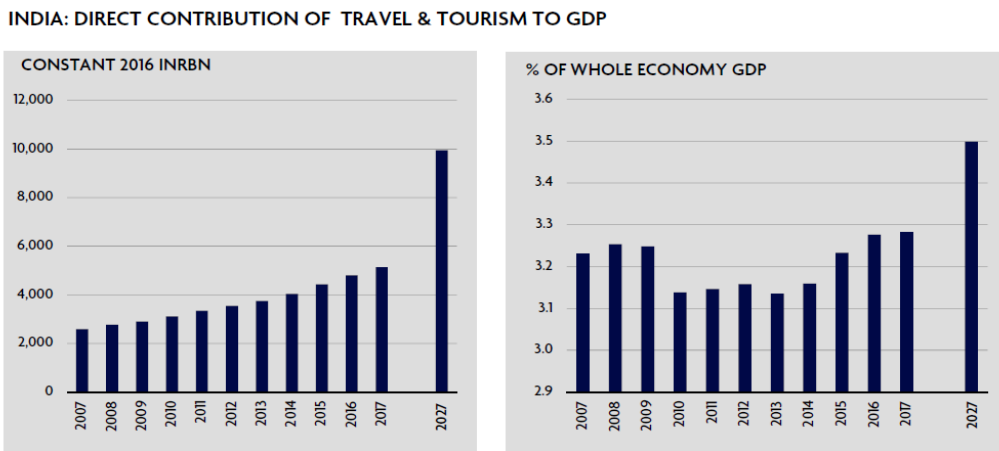
Theory:
Tourism has gradually emerged as one of the major industries in India.Though, it is still in its initial stage of development, it is striving to be a benign agent of development and endurable medium to create various contributions. In fact, tourism can contribute as channel for the socio-economic development ofthe country, as a massive foreign exchange earner, as a big generator of employment through its labour-intensive nature, as an endurable medium of infrastructure development and poverty alleviation as well as a genuine promoter of cultural harmony and peace. Pandit Jawaharlal Nehru's oft-quoted remark, namely "welcome a tourist and send back a friend" has been the essence of Indian tourism approach in the post independence era. According to Gupta, V. (1999) Religious journeys have occurred for so many centuries without bringing the adverse ecological, social and cultural effects connected with tourism. Typical characteristics of religious journeys are: not an inordinate burden on the surroundings ; useful to nearby communities; happen at sure times of year just; individuals convey their own particular gear and buy food, etc; pilgrims are peaceful, well behaved and law abiding; killing creatures or taking from nature is unthinkable.. Development). The six S of india's tourism swacchta, sahyog, swaagat, sanrachna, soochna, suvidha.Tourism is defined as "the temporary movement to destination outside the normal home and workplace, the activities undertaken during the stay, and the facilities created to cater for the needs of tourists" (Mathieson and Wall 1982). Although there is no consensus on the definition of tourism among the researchers and lack of theories in tourism (Franklin and Crang 2001), the conceptualization of tourism as a discipline leads to

the emergence of conceptual and theoretical approaches which contributes to the tourism literature. There are few types of theoretical models of tourism; descriptive models, explanatory models and predictive models (Chorley and Haggett 1967). A descriptive model depicts the tourism system while explanatory model illustrates how the system and subsystem function. The predictive model is developed based on causal relationship which allows prediction. Tourism is a multidisciplinary as the phenomenon within this discipline cannot be studied using a single disciplinary (Matthews and Ritcher 1991). Tourism scholars adapt theories from other disciplines such as psychology, sociology, anthropology, economics and etc. (Sheldon 1991). Borrowing theories from other discipline is common in tourism discipline. Even though, there is short of theory building within this discipline, scholars developed few key concepts in tourism such as tourism system (Leiper 1979), tourist typology (Plog 1974; Cohen 1972; Smith 1977) and Butler's Tourist Area Life Cycle (TALC) (Butler, 1980).

Research and methodology:

Economic aspects of Tourism in India:

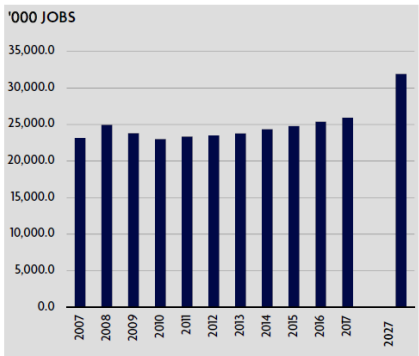
- **Major contribution to GDP**: Tourism industry has contributed enormously in the flourishing graph of India's economy by attracting a huge number of both foreign and domestic tourists traveling for professional as well as holiday purpose. The tourism industry in India witnessed a stupendous growth in 2006. The growth in the inflows in India's tourism industry is calculated both in terms of business and vacations. The Role of Tourism Industry in India GDP also features medical tourism that includes traditional therapies like yoga, meditation, ayurveda, allopathy and other conventional systems of medicines.

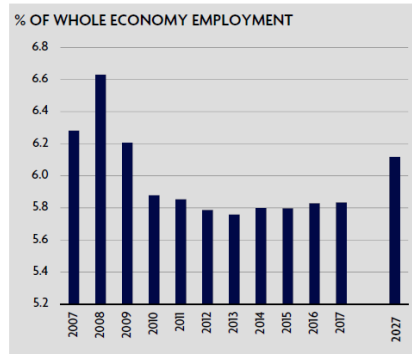


The direct contribution of Travel & Tourism to GDP in 2016 was INR4,809.8bn (3.3% of GDP). This is forecast to rise by 6.9% to INR5,141.1bn in 2017. This primarily reflects the economic activity generated by industries such as hotels, travel agents, airlines and other passenger transportation by tourists.

- **Employment**: Tourism is a labour intensive industry. The provision of tourist services generates employment opportunities. It increases the employment level by creating new employment in the tourism sector and by stimulating the creation of others, such as construction, transport etc. It indirectly increases productivity by other sectors, particularly of the agriculture sector as it draws manpower resulting from hidden employment or seasonal under employment. This sectors exhibits backward and forward linkages with other sectors in the economy. Tourism is widely considered to be a high user of labour and its impact on job creation can be considered in areas with limited potential for other economic activities. Tourism is responsible for creation of employment outside the tourist industry. The range of jobs created by tourism extends from unskilled through to management tasks. Despite the fact that Indian Economy is accelerating at a rapid pace, unemployment remains the major untackled issue. Thereby, boosting the tourism industry will pave an extensive path for employment opportunities. The total contribution of Travel & Tourism to employment (including wider effects from investment, the supply chain) was 40,343,000 jobs in 2016 (9.3% of total employment). By 2027, Travel & Tourism is forecasted to support 49,868,000 jobs (9.6% of total employment), an increase of 2.0% pa over the period.

INDIA: DIRECT CONTRIBUTION OF TRAVEL & TOURISM TO EMPLOYMENT





- **Foreign exchange**: Foreign tourist arrivals refer to the number of arrivals of tourists/visitors. An individual who makes multiple trips to the country is counted each time as a new arrival. Foreign Exchange Earnings from tourism are the receipts of the country as a result of consumption expenditure, i.e. payments made for goods and services acquired, by foreign visitors in the economy out of the foreign currency brought by them. This growth trend is dependent on many external factors including exchange rate and socio–political scenario, despite global undulations, FEEs have consistently contributed a significant share to the Tourism GDP of India. The rising flow of Foreign Tourist Arrivals (FTAs) is clearly a function of the stellar growth performance of emerging tourism trends like MiCE along with spiritual travel and medical tourism. Furthermore, it goes without saying that FTAs have been able to garner considerable resources for the country and started contributing significantly to the economy. Foreign tourists tend to spend more in India than almost any other country worldwide due to its size as well as diversity of culture and geography. These are positive signs for the industry, and indicate significant potential going forward. FEEs help to stabilize the BOP accounts and trade deficits.

FOREIGN EXCHANGE EARNINGS FROM TOURISM IN INDIA DURING 1991–2016

Year	FEE in ₹ terms		FEE in US$ terms	
	₹Crore	% Change over previous year	US $ Million	% Change over previous year
1991	4318	-	1861	-
2001	15083	-3.5	3198	-7.6
2002	15064	-0.1	3103	-3
2003	20729	37.6	4463	43.8
2004	27944	34.8	6170	38.2
2005	33123	18.5	7493	21.4
2006	39025	17.8	8634	15.2
2007	44360	13.7	10729	24.3
2008	51294	15.6	11832	10.3
2009	53700	4.7	11136	-5.9
2010#[1]	64889	20.8	14193	27.5
2011#[1]	77591	19.6	16564	16.7
2012#[1]	94487	21.8	17737	7.1
2013#[2]	107671	14	18445	4
2014#[2]	123320	14.5	20236	9.7
2015#[2]	135193	9.6	21071	4.1
2016#[2]	154146	14.0	22923	8.8
2017#[1]	180379	17.0	27693	20.8

#[1] Provisional estimates
#[2]ProvisionallyRevised estimates (based on final FTA received from BOI).

- **Infrastructure Development**: Tourism infrastructure can be regarded as the physical elements that are designed and erected to cater for visitors. The strong relationship between tourism development and infrastructure has been theoretically established by a number of authors. Tourism infrastructure is the basis of tourism development, as well as a base for utilization of destination resources. The importance of tourism infrastructure is reflected in the fact that it can contribute to increasing the efficiency of production and distribution of tourism services, and, in

some cases, such as remote destinations, it increases the supply of tourism services. Transport Infrastructure has a significant role in attracting tourists. Metro connectivity in the major cities has improved local travelling for the tourists. A significantly improved rail network and air connectivity has boosted the tourism sector. The arrival of tourists enhances the efficiency of human resources at the destination, as tourists require certain services in order to feel better during their stay at the selected tourist destination. Inparticular, there is an increase in the demand for infrastructure services in terms of water supply, waste disposal, communication and electricity supply, as the necessary elements for comfortable functioning of tourists at the selected destination. Infrastructure is defined as the provision of public safety, transportation services, medical systems, financial systems, education systems, and other services involved in the population's, as well as in tourists' demand. As a component of the regional tourism product, tourism infrastructure is of special importance for long-term tourism growth and the general progress of tourist destinations in providing the required services to tourists.

- **Government Revenue**: Tourism Revenue is calculated by the revenue generated by inbound tourism, and by the expenditures of outbound travellers. Tourism is a complex industry of numerous sub sectors. It is challenging to define exactly what constitutes a tourism product and how to tax it. Tourism is not a single commodity, but rather a collection of many different goods and services provided by a wide range of suppliers. The Tourism value chain encompasses a variety of different actors, including hotels, air carriers and transport companies, tour operators, travel agents, rental agencies and countless suppliers from other sector. Taxing tourism may seem appealing when the bulk of taxes can be placed on constituents, but taxing inbound travel is akin to taxing exports as it erodes competitiveness. The distinction can be blurred between taxes principally paid by tourists as end users and those that mostly affect tourism businessThe Indian tourism industry offers online booking system, one of the basic proofs of technological advancement in this sector. These online bookings are applicable for booking the air tickets via Internet by logging on to the website and also booking the hotel room of the place to be visited. The online tourism industry has accounted for a turnover of USD 800 million which is apparently 14 percent of the entire travel and tourism industry., depending on the degree to which taxes are directly passed on to tourists.

Regression analysis:

Regression analysis describes the relationship between dependent variable and one or more independent variables. In our model, we have taken Foreign Tourist Arrivals (FTAs) measured in million as the dependent variable and GDP from tourism industry measured in million US$ as the independent variable which means that the number of foreign tourists in India depends upon GDP and total output generated by the tourism industry. The model makes makes an important assumption that the GDP or value added by the tourism industry in the previous year augments to the capital stock in the present year i.e. the GDP earned is re invested next year. The main objective of this analysis is to estimate the impact of GDP earned by the tourism sector on the foreign tourists arrivals in India from 1991 to 2017. The results are obtained using Data analysis Toolpak. Analysis of Variance (ANOVA) and hypothesis testing is also performed to check the statistical significance of independent variables.

Table 1. Data of contribution to GDP by tourism industry and FTAs for the year 1991-2017

year	contribution to GDP by Tourism industry (US$) X	Foreign tourist arrivals (in millions) Y
1991	36.871	1.67
1992	37.992	1.86
1993	36.445	1.76
1994	42.267	1.88
1995	49.519	2.12
1996	52.544	2.29
1997	60.265	2.37
1998	62.804	2.36
1999	68.146	2.48
2000	74.332	2.65
2001	61.122	2.54
2002	72.443	2.38
2003	81.7	2.73
2004	87.154	3.46
2005	72.27	3.92
2006	73.015	4.45
2007	100.744	5.08
2008	68.171	5.28
2009	67.288	5.16
2010	73.312	5.77
2011	79.697	6.29
2012	92.2144	6.58
2013	113.2	6.97
2014	125.21	7.68
2015	129.49	8.03
2016	208.9	8.8
2017	300.9	10.18

Data compiled by author using annual reports of Ministry of Tourism'2017

Table 2: Regression coefficients:

Model	Coefficients	Standard error	T statistic	p- value
Intercept	1.133725133	0.495964162	2.285901	0.031005
GDP By tourism	0.036996929	0.004855741	7.619213	5.65

$\mathbf{F_i = \beta_0 + \beta_1 GDPT_{i-1} + u_i}$

Where

Fi = Foreign Tourist Arrivals in year i

B_0 = Intercept term

B_1 = slope coefficient

$GDPT_{i-1}$ = GDP by tourism sector in the previous year (i-1)

U_i = Error term

Regression equation:

$$\mathbf{F_i = 1.1337 + 0.0369 GDPT_{i-1} + u_i}$$

Interpretation:

If the GDP contribution by tourism industry in the previous year is not taken into consideration then the model estimates 1.1337 million FTAs in a given year. If the GDP contribution by tourism industry is taken into consideration then if the GDP is increased by 1 million US $ then total FTAs increase by 0.0369 million.

Table 3: Estimation of standard deviation model summary

Multiple R	0.836053384
R square	0.69898526
Adjusted R square	0.686944671
Standard Error	1.381543549

The coefficient of determination R^2 indicates that 69% of the total variation is explained by the independent variable in the regression.

Table 4: variation Analysis (ANOVA)

	Df	Sum of squares	Mean sum of squares	F
Regression	1	110.8025	110.8025	58.05241
Residual	25	47.71656	1.908663	
total	26	158.519		

We can also test the statistical significance of overall regression model and individual independent variable i.e. GDP of tourism sector.

H_0: $\beta_1=0$

H_1: $\beta_1 \neq 0$

F statistic which is observed as 58.05241 in table 4 shows the overall significance of the model. Here the observed F stastistic is greater than the value of F critical at 5% level of significance with numerator df 1 and denominator df 25 is 2.17 which rejects the null hypothesis. Hence the model is overall significant.

To test the statistical significance of individual parameters we use t test with (n-k-1) degrees of freedom. T statistic is given by: β_1-$\beta(H_0)$ / S.E. (β_1). The T statistic obtained is 7.6875 which is greater than t critical. Therefore the null hypothesis is rejected and the GDP of tourism industry in the previous year has a significant impact on FTAs of present year.

Conclusion:

As a consequence it can be ascertained that the variables Foreign Tourist Arrivals in the present year and the GDP of the tourism industry in the previous year (which is assumed to be re invested in the present year) are significant and positively correlated. All the other factors which impact the foreign tourist arrivals are captured by the error term. The tourism industry in India has a vast potential which has been left

unexplored since years. With the government initiating programmes like Incredible India, Swagat, National Tourism policy'1997 the tourism sector is accelerating at a steady pace. Development in tourism sector enhances the capacity of other sectors such infrastructure, transport, communication. Tourism is a highly integrated, economy centered sector in India.

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