

An Economic Impact of the Tourism Industry in India

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Date of Submission: 25-12-2020

Date of Acceptance: 08-01-2021

ABSTRACT: Tourism has emerged as the world's largest industry and contributes 10.4 per cent to the world's Gross Domestic Product that makes this industry one of the largest economic sector over worldwide. Although this industry generates employment, earns foreign exchange, revenue but it is also one of the most important economic engines for the growth and development of any country. Consecutively it adds positively to the economic development of the country as a whole. So, this paper is an attempt to study the economic impact of tourism in India. The paper also recommended that the both governments i.e. State and Central government should develop more improved and clear strategies to increase revenue from tourism sector by providing better public service, which no doubt enhances the tourism sector performance.

Keywords: Tourism, Economy, Gross domestic product, foreign exchange earnings.

I. INTRODUCTION

Tourism as a socioeconomic phenomenon has evolved into one of the largest and emerging industries in the world. Historians elaborated that the advent of mass tourism began in England during the industrial revolution with the rise of the middle class and relatively inexpensive transportation. The creation of the commercial airline industry following the Second World War and the subsequent development of the jet aircraft in the 1950s signaled the rapid growth and expansion of international travel. This growth leads to the development of a major new industry i.e. tourism. In turn, international tourism has become the concern of a number of world governments since it not only provided new employment opportunities, but also produced a means of earning foreign exchange. Tourism today has grown significantly in both economic and social importance. The fastest growing economic sector of most industrialized countries over the past several years has been in the area of services. One of the largest segments of the service industries, all though largely unrecognized as an entity in some of these countries, is travel and tourism.¹

Tourism is one of the economic sector in India that has the potential to grow at a high rate and can

ensure the consequential development of the infrastructure at the destinations. It has the capacity to capitalize on the country's success in the services sector and provide sustainable models of growth. It has the potential to stimulate other economic sectors through its backward and forward linkages and cross-sectoral synergies with sectors like agriculture, horticulture, poultry, handicrafts, transport, construction, etc. Expenditure on tourism induces a chain of transactions requiring the supply of goods and services from these related sectors. The consumption demand, emanating from tourist expenditure, also induces more employment and generates a multiplier effect on the economy. As a result, additional income and employment opportunities are generated through such linkages. Thus, the expansion of the tourism sector can lead to large-scale employment generation and poverty alleviation. The economic benefits that flow into the economy through the growth of tourism in the shape of increased national and State revenues, business receipts, employment, wages and salary, buoyancy in Central, State and local tax receipts can contribute towards overall socioeconomic improvement and accelerated growth in the economy.²

II. REVIEW OF LITERATURE

Quite a lot number of researches have been conducted on tourism development and different related aspects of tourism. However, the requirements and tastes of the tourists vary time to time and as such, it influences the economy. However, the existing literature of the subject is reviewed as follows: **Negi (1999)**³ made an attempt to describe that tourism is an economic and industrial activity in which many individuals firms, corporations and associations are engaged. He further stated that tourism is helpful in generating employment and has emerged as the single largest foreign in exchange earner in India. **DIPP (2014)**⁴ conducted a report on "Tourism & Hospitality Industry in India". It was expected that the tourism sector's contribution to the country's gross domestic product (GDP) will grow at the rate of 7.8 per cent yearly in the period 2013–2023. In the period April 2000 – August 2014, this sector attracted around US\$ 7,441 million of FDI,

according to the Department of Industrial Policy and Promotion (DIPP). Foreign exchange earnings (FEE) during January–July 2014 stood at US\$ 11.055 billion as compared to US\$ 10.85 billion during the same period last year. FEE during July, 2014 stood at Rs 10,336 crore (US\$ 1.68 billion) compared to Rs 8,620 crore (US\$ 1.41 billion) in July, 2013. A high and positive growth of 12.5 per cent was registered in foreign tourist visits (FTVs) to north-eastern states of India during 2012 from 2011, which further rose by more than 100 per cent to register a growth of 27.9 per cent during 2013 from 2012. Among these north-eastern states, Manipur recorded the highest FTVs followed by Arunachal Pradesh and then Tripura. The Government of India has also taken a several steps to make India a global tourism hub.. The Government of India has launched the ‘Incredible India’ mobile application. The app will help tourists to seek information, besides enabling quality and reliable services from service providers recognized by the Government of India. WTTC(2014)⁵ in its annual economic impact report 2014 for India reveals that travel and tourism's economic contribution was expected to grow by 7.3% this year, outperforming the general economy by 2.5% points. Revenues gained from domestic tourism rose by 5.1% in 2013 and is expected to increase by 8.2% in 2014. The amount that international visitors spent in India rose by 6.2% in 2013 but is forecast to slow to a 2.9% growth rate in 2014. During 2013, travel and tourism industry contributed Rs 63,160 crore to the economy and generated 35 million jobs. David Scowsill, president and chief executive officer, WTTC, said that "Inbound tourism is continuing to grow both in terms of international tourist arrivals and international tourism receipts. But it is the domestic market which will see particularly strong growth in 2014 with more investment and more Indians travelling. The Government of India has announced that it proposes to extend visa on arrival and electronic travel authorization for tourists from 180 countries and to speed up the application process for those still requiring a paper visa. It plans to issue visa in three days in such cases. According to WTTC, India ranked 10th among 185 countries in terms of travel & tourism's total contribution to GDP in 2019. During 2019, contribution of travel & tourism to GDP was 6.8% of the total economy, ~ Rs. 13,68,100 crore (US\$ 194.30 billion).⁶

III. OBJECTIVE

- To study an economic impact of tourism in India.

IV. TOURISM IN INDIA

Variations in the climatic conditions of the country are so many that they should be suitable for people from different countries. Besides, a fine blend of tradition and modernity which is available here in plenty intensifies the appeal of this country as a “tourism Country “for those who have sense and sensibility to appreciate. The scenic panorama excels in variety and quality. Our Architectural wealth is equally unique as India's civilization goes back more than four millennia. Performing arts like music, dance and drama have always been an integral part of Indian life. Folk tunes and rhythms invariably add color and spice to the life in rural life. Crafts, fairs and festivals are other significant embellishments of India's cultural heritage. In fact, attraction, one of the basic elements of tourism supply, identified by Pearce can be of three types: Natural attraction, Man –made objects and cultural (music, folklore, cuisine, etc.) and India is one of the very few countries in the living universe that is endowed with a magnificent blend of all these. This particular industry in India is substantial and vibrant, is at verge of becoming a major global destination. Travel and tourism industry in India is one of them most profitable industries in the country and credited with the contributing a substantial amount of foreign exchange.⁷

The World Travel and Tourism Council calculated that tourism generated \$121 billion or 6.4% of the nation's GDP in 2011. It was responsible for 39.3 million jobs, 7.9% of its total employment. The GDP of the tourism sector has expanded 229% between 1990 and 2011. The sector is predicted to grow at an average annual rate of 7.7% in the next decades.⁸ In a 2011 forecast the World Travel and Tourism Council predicted the annual growth to be 8.8% between 2011 and 2021. This gave India the fifth rank among countries with the fastest growing tourism industry.⁹ India has a large medical tourism sector which is expected to grow at an estimated rate of 30% annually to reach about ₹ 9,500 crore by 2015.¹⁰

During the year 2011, the number of Foreign Tourist Arrivals (FTAs) in India reached the level of 6.29 million, registering a growth of 8.9% over the FTAs of 5.78 million in 2010. The growth rate of 8.9% in tourist arrivals in India was almost double the growth of 4.4% in tourist arrivals worldwide. The tourism sector in India, therefore, has fared quite well vis à vis the world. Foreign Exchange Earnings (FEE) from tourism in India during 2011 were \$16.56 billion as compared to \$ 14.19 billion in 2010, showing a growth of 16.7%¹¹

The Travel & Tourism Competitiveness Report 2011 ranked the price competitiveness of India's tourism sector 28th out of 139 countries. It mentions that India has quite good air transport (ranked 39th), particularly given the country's stage of development, and reasonable ground transport infrastructure (ranked 43rd). Some other aspects of its tourism infrastructure remain somewhat underdeveloped however. The nation has very few hotel rooms per capita by international comparison and low ATM penetration. The Indian government has identified a shortage of 150,000 hotel rooms, with most of the undersupply in the budget sector.

Ministry of Tourism continued its efforts to develop quality tourism infrastructure at tourist destinations and circuits across the country. During 2011-12, the Ministry has sanctioned 160 tourism projects for an amount of Rs. 710.02 crore for tourism infrastructure augmentation to States/ UTs upto 31st December, 2011. The Ministry has given special focus on development of important destinations/ circuits through sanction of mega projects. Mega Tourism projects are a judicious mix of culture, heritage, spiritual & eco tourism and aim to give tourists a holistic experience. As on 29.02.2012, the Ministry has identified 53 mega tourism projects in consultation with State Governments, out of which 35 have been sanctioned.

V. TOURISM IMPACTS

The impact of tourism industry, particularly in the host country, is manifold. This reflects on the economic, social, cultural, and environmental aspects of the country. It brings both international and national, intermingling of people from diverse social and cultural backgrounds, and also a considerable spatial redistribution of spending power has significant impact on the economy of the destination area. The host regions benefit from tourism (not only financially) but at the same time incur costs of various types. The general issues central to any discussion of the positive and negative impacts of tourism must include notions of carrying capacity and also how impacts can be assessed. Carrying capacity is a relatively straightforward concept- in simple terms it refers to a point beyond which further levels of visitation or development would lead to an unacceptable deterioration in the physical environment and of the visitor's experience. The impact made by tourism therefore depends upon the volume and profile characteristics of the tourists (their length of stay, activity, mode of transport, travel arrangement etc.)¹²

ECONOMIC IMPACTS OF TOURISM

The driving force behind the development of tourism is its potential contribution to destination economies. This is particularly in less developed countries, where tourism is seen as an effective (and sometimes the only) catalyst of economic growth and wider socioeconomic development. For many such countries throughout the developing world, tourism represents an economic lifeline, its contribution usually measured in terms of earnings from tourism (tourism receipts), export earnings (balance of payments) contribution to GNP and employment generation.

Against these benefits have to offset the economic costs involved. Apart from the purchase of import requirements, the earnings of expatriate workers and the overseas expenses incurred by the foreign companies concerned during both the construction and operating phases of the development, none of which benefits the resident population, the country itself incurs considerable costs internally. The real costs to the society of employing resources and factors of production in any one sector, including the construction and operation of hotels and other associated tourism services, is the value of the output which could have been obtained from their use in other sector of the economy. Since capital and skilled labor are rarely, if ever, abundant in against these benefits have to offset the economic costs involved. Apart from the purchase of import requirements, the earnings of expatriate workers and the overseas expenses incurred by the foreign companies concerned during both the construction and operating phases of the development, none of which benefits the resident population, the country itself incurs considerable costs internally. The real costs to the society of employing resources and factors of production in any one sector, including the construction and operation of hotels and other associated tourism services, is the value of the output which could have been obtained from their use in other sector of the economy. Since capital and skilled labor are rarely, if ever, abundant in such countries, the development of a tourism industry requires some of these scarce resources to be diverted from their alternative uses. Admittedly, some factors of production might otherwise be unemployed, in which case their use in tourism involves no real cost to society, but in most cases the opportunity cost incurred is the value of the production lost in another sector. The principal economic impacts of tourism are as follows:

Generation of National Income- Tourism is a highly labour intensive industry and provides

employment to skilled, semi-skilled and unskilled persons. According to WTTC, India ranked 10th among 185 countries in terms of travel & tourism’s total contribution to GDP in 2019. During 2019, contribution of travel & tourism to GDP was 6.8% of the total economy, about Rs. 13, 68,100 crore (US\$ 194.30 billion). In India, the sector’s direct contribution to GDP is expected to grow by 7.1% per annum during 2018-28. In FY20, 39 million jobs were created in the tourism sector in India, which was 8.0% of the total employment in the country.¹³

Foreign Exchange Earnings- When a foreign tourist spends even a rupee for their goods and services are considered as foreign exchange earnings for the country. Tourism is an important source of foreign exchange in India. During 2019, India earned foreign exchange of US\$ 29.96 billion from tourism, recording a y-o-y growth of 4.80%. Foreign exchange earnings (FEEs) from tourism in India witnessed growth at a CAGR of 8.96% during 2007-2019. As per the monthly estimates prepared by Ministry of Tourism, FEEs from tourism in India in 2018 in ` terms were `194881 crore as compared to `177874 crore in 2017 registering a growth of 9.6 % in 2018 over 2017. In US \$ terms, FEEs from tourism in 2018 were US \$28.586 billion as compared to US \$27.310 billion in 2017 with a growth rate of 4.7%. ¹⁴The FEEs from tourism in India, during 2006- 2019 are given in Table 1.1 and diagram1.1

TABLE: 1.1
FOREIGN EXCHANGE EARNINGS

Year	Foreign Exchange Earnings	%age change over previous year
2006	39025	17.8
2007	44360	13.7
2008	51294	15.6
2009	53700	4.8
2010	64889	23.1
2011	77591	25.5
2012	94487	15.1
2013	107671	12.5
2014	123320	11.9
2015	135193	12
2016	154146	14.3
2017	177874	15.4
2018	194881	9.6
2019	211661	8.6

Ministry of Tourism, Govt. of India
 Diagram1.1



- **Contributes to income and standard of living** - Tourism has influenced the economic structure of local community by providing jobs and brought more investment to the community's economy which also helps the community particularly in the changing economic environment due to its ability to generate jobs, income and raise living standards.
- **Increases tax revenues** - Tourism makes major contributions to the economy. Tourism, both for goods and services, contributes to revenue growth and is a source of revenue for public services, investment, and infrastructure. Tourists generally pay for good and quality services offered to them. Tourism is linked to and dependent on certain necessary conditions in order to have a growing attendance of tourists: as a clean environment, a commode system of transportation, facilities of communication, a quality, security, tranquility of health system. This high, quick development of tourism affected higher taxation of tourism industry. For this purpose a part of the tourism tax revenues should be used for increasing and improving human and physical capital, for training, investment etc.
- **Improves transportation infrastructure-** Transportation plays an important role in tourism development. Transport is important for visitor’s safe, comfortable, and efficient means of traveling between one to another locations. Thus, tourism growth requires improved transport infrastructure to attract more tourists.
- **Leakage-** Economic leakage in tourism is when money spent does not remain in the country but ends up elsewhere; therefore limiting the economic benefits of tourism to the host destination. The biggest culprits of economic leakage are multinational and internationally-owned corporations, all-inclusive holidays and enclave tourism. Another negative economic impact of tourism is the cost of infrastructure. Tourism

development can cost the local government and local taxpayers a great deal of money.

- **Increase in prices**-Tourism increases prices by increase in demand for basic services and goods from tourists that obvious cause rise in prices. As a result it creates a negative impact on local residents/communities whose income does not increase proportionately. Tourism growth may perhaps lead to the inflation, mainly during tourist season in retail prices and in property / land values in popular tourist areas.

Other various issues that also gave impact on economy include economic recession, natural disasters etc. Over-dependence on tourism carries risks to tourism-dependent economies, which can have devastating results.

VI.CONCLUSION

Tourism destinations with certain attributes such as attractions, facilities, services, accessibility, image, price, and human resources etc. make them appropriate and available for tourists. There are various impacts of tourism on the destinations such as economic, social-cultural, historical, environmental, ecological and physical. One of the main aim of tourism industry in India are to make tourism a prime engine for economic development and prosperity of the country and as a major means for providing employment opportunities, contributing foreign exchange earnings by increase number of foreign tourist arrivals, generate revenue and tax from travel and encourage to more investment that helps in the development of more infrastructures and facilities, creates a new markets for local products that has a great contribution to the local economy, helps to lead more spending in the locality, provide guidelines to modernization in infrastructure, opportunity to increased shopping facilities to buy variety of local products with high memorial significance and provide opportunities for economic diversification and skill upgrading. Though, the demand for domestic tourism is still developing. The country needs to improvement or implement new ideas and projects to promote domestic tourism all year around.

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