

GROWTH OF TOURISM AND ITS IMPACT ON GDP AND FOREIGN EXCHANGE EARNINGS

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Abstract: *Tourism industry plays crucial role in India's economic development. It contribute larger share in employment generation. Tourism augments country's foreign exchange reserve. It play sustainable role in country's economic growth. Tourism industry play crucial role in India's economic development. Rich cultural and natural heritage, historical and religious places attracts international tourist arrivals (ITAs) towards India. This paper would analyse the trends, of tourism in India. It would study the impact of GDP on tourism. We would also study the relationship between foreign tourist arrival (FTA) and foreign exchange earnings (FEE). The study is based on secondary data and study would be based on explorative, trends analysis, and SWOT analysis covering the time period of 1991 to 2017.*

Keywords- *Tourism industry, GDP, Employment Generation, FTAs, FEEs*

Introduction

Tourism is one of the sun-rising sectors of the world economy which importance was recognized in the Manila Declaration on World Tourism of 1980 as "an activity essential to the life of nations because of its direct effects on the social, cultural, educational, and economic sectors of national societies and on their international relations" (**World Tourism Organization 1995**). Tourism is a crucial source of income for many localities, regions and countries without damaging much ecological balance. It play sustainable role in country's economic growth. It contribute larger share in employment generation along with associated sectors. Tourism augments country's foreign exchange reserve. It's accounting for 30% of the world's trade of services, and 6% of overall exports of goods and services. There are positive ripple effects of tourism on its allied service industries transportation services, hospitality services, and entertainment venues. This is in addition to goods bought by tourists, specially memento.

Tourism is defined by *Hunziker and Kraft* as "the sum of the phenomena and relationships arising from the travel and stay of non-residents, insofar as they do not lead to permanent residence and are not connected with any earning activity." And the *Tourism Society of England's* has defined as "Tourism is the temporary, short-term movement of people to destinations outside the places where they normally live and work and their activities during the stay at each destination. It includes movements for all purposes." So we can defined it in simple words- tourism is a temporary movement for short span of time outside of their locality where they live or work for leisure, enjoyment, business purposes, educational purpose, training purpose and so on. It may be within country or abroad. The UN's Tourism Statistics (1994) has identified three forms of tourism i.e. 1) **Domestic tourism** which involved residents of the given country traveling only within her domestic territory. 2) **Inbound tourism** which involved non-residents traveling in the given country. 3) **Outbound tourism**, involving residents traveling abroad.

The Travel & Tourism sector continued to show its resilience in 2016, instead of the ever-increasing chaos including terrorist attacks and political instability, pandemics diseases and natural disasters. It contributes direct GDP growth of 3.1% and created 6 million net additional jobs in the sector. As a whole it generated US\$7.6 trillion (10.2% of global GDP) and 292 million jobs in 2016, equivalent to 1 in 10 jobs in the global economy. The travel and tourism sector contributed 6.6% of total global exports and almost 30% of total global service exports.

"The outlook for the Travel & Tourism sector in 2017 remains robust and will continue to be at the forefront of wealth and employment creation in the global economy, despite the emergence of a number of challenging headwinds. Direct Travel & Tourism GDP growth is expected to accelerate to 3.8%, up from 3.1% in 2016. As nations seem to be looking increasingly inward, putting in place barriers to trade and movement of people, the role of Travel & Tourism becomes even more significant, as an engine of economic development and as a vehicle for sharing cultures, creating peace, and building mutual understanding". (**World Travel & Tourism Council Report 2017**)

The Travel and Tourism has immense potential to create huge jobs and contribute in world GDP in sustainable manner. Which are requires enacting pro-growth travel policies and business friendly environment to ensure equitable and sustainable management of this sector in upcoming days. The WT&TC expects that sector will continue to grow further along with providing its protection to nature, habitats, and biodiversity. It is also anticipated generating over 380 million jobs by 2027.

India's tourism industry play crucial role in country's economic development. There are significant relationship between time and foreign tourist arrivals (FTAs), employment generation, GDP and Foreign Exchange Earnings (FEEs). Services like hospitality, civil aviation, travel and transportation, hotel, resort, tour operators etc are directly and proportionately related to tourism sector growth.

Literature Review

Vijayaragavan (2014) has discussed that tourism is one of the fastest growing service industry in the country with great potentials for its further expansion and diversification. **Dayananda** and **Leelavathi** (2016) have explained that increase in the tourist arrivals have resulted in the rapid growth of tourism sector in India and has evidenced sustainable and inclusive economic growth due to the wide expansion of tourism sector. **Kakkar** and **Sapna** (2012) have explored that India's tourism industry is experiencing a strong period of growth, driven by the burgeoning Indian middle class growth in high spending foreign tourist and coordinated government campaigns to promote 'incredible India'. They suggested tourism is the right vehicle for a modern economic growth through structural transformation of the economy. **Mir** (2014) has found that there is a significant relationship between tourist inflow and time. According to him tourist inflow is important indicator in demand forecasting with the passage of time remaining other things constant. Further he said that tourism has an inbuilt capacity

that it could contribute remarkably and in minimum time duration in poverty alleviation through job creation and productive employment by offering labour-intensive jobs and small-scale business opportunities that generally employ a high proportion of women and unskilled youth. Tourism remains the world's largest industry and one of the fastest growing sectors, accounting for over one-third of the value of total worldwide services trade (WTO, 2006). Pioneering studies from **Lea** (1988) and **Sinclair** (1998) have highlighted the potential of the tourism sector in promoting growth, creating jobs and generating revenue for the government. In fact the tourism-led growth hypothesis postulates that international tourism is considered as a potential strategic factor for economic growth. Tourist spending, as an alternative form of exports is believed to contribute to the balance of payments through foreign exchange earnings and proceeds generated from tourism expansion and can represent a significant income source for a national economy concluded by **Balaguer & Cantavella-Jorda** (2002). Foreign exchange earnings from tourism can subsequently also be used to import capital goods to produce goods and services, which in turn leads to economic growth (**McKinnon, 1964**). Other economic benefits derived from tourism activity include tax revenues, employments (it tends to be labour intensive) and additional sources of income explained collectively by **Archer** (1995); **Durberry** (2002); **Khan, Seng & Cheong** (1990); **Uysal & Gitelson**, (1994).

Objectives of study

- To study the impact of tourism on GDP of India.
- To study the relationship between foreign tourist arrival (FTA) and foreign exchange earnings (FEE).

Methodology and Data Sources

This paper has been analyzed the trends, opportunities, challenges and future prospects of tourism in India. It has studied the impact of GDP on tourism and tourism contribution in GDP of India and also examined the impact of tourism on employment generation in India. Further, this paper also highlighted the relationship between foreign tourist arrival (FTA) and foreign exchange earnings (FEE). The study is based on secondary data and it has been collected from various authentic sources viz., Ministry of Tourism, GoI, indiastat.com, the WT & TC, and World Tourism Organisation (UNWTO). This paper has used explorative method to draw inferences on the basis of previous literatures and also done trends analysis, to show the short term as well as long term variations exists in the variables taken for the study purpose. The time period for the study has been taken from 1991 to 2017.

Analysis

Tourism sector has significant growth over period of time. Its total contribute in GDP was Indian rupees in billion (INRBN) 4767.34 at real prices in 1995 to INRBN 8473.33 reaches at peak after -13.57% fall in growth of tourism in 2001. It further decreases at INRBN 6779.63 (-19.99 %) in before achieved its culmination in 2017 due to world financial crisis started with Turkish crisis.

Figure-1: total contribution of tourism sector in GDP

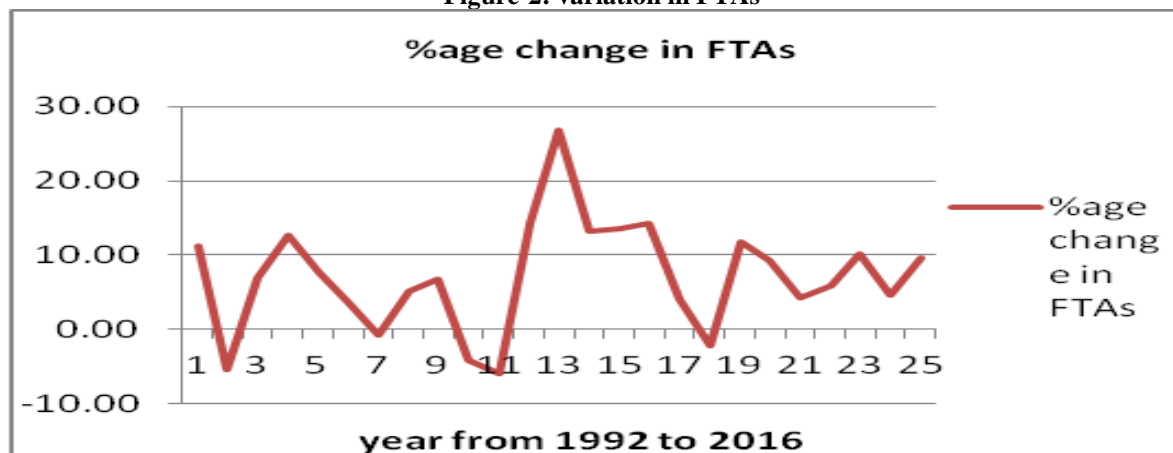


Source: WT & TC

The US subprime crisis also reduced it dramatically from 4.81% to only .72% in 2009. After that it picked up her pace and now it expected to account at INRBN. 14964.30 (6.74% less than 8.33 in last year) in 2017, while in nominal terms it will Account 15660.80; it was INRBN 1525.43 in 1995. The total contribution of Travel & Tourism to GDP was INRBN. 14,018.5 (USD208.9bn), 9.6% of GDP in 2016, and is forecast to rise by 6.7% in 2017, and to rise by 6.7% pa to INRBN 28,491.8 (USD424.5bn), 10.0% of GDP in 2027.

The direct contribution of Travel & Tourism to GDP is almost constant during the study period between 3 to 4% range as **figure1** reflects. It was INR 4,809.8bn (USD71.7bn), 3.3% of total GDP in 2016 and is forecast to rise by 6.9% in 2017, and to rise by 6.8% pa, from 2017-2027, to INR 9,948.5bn (USD148.2bn), 3.5% of total GDP in 2027.

Figure-2: variation in FTAs



Source: Ministry of Tourism, GoI

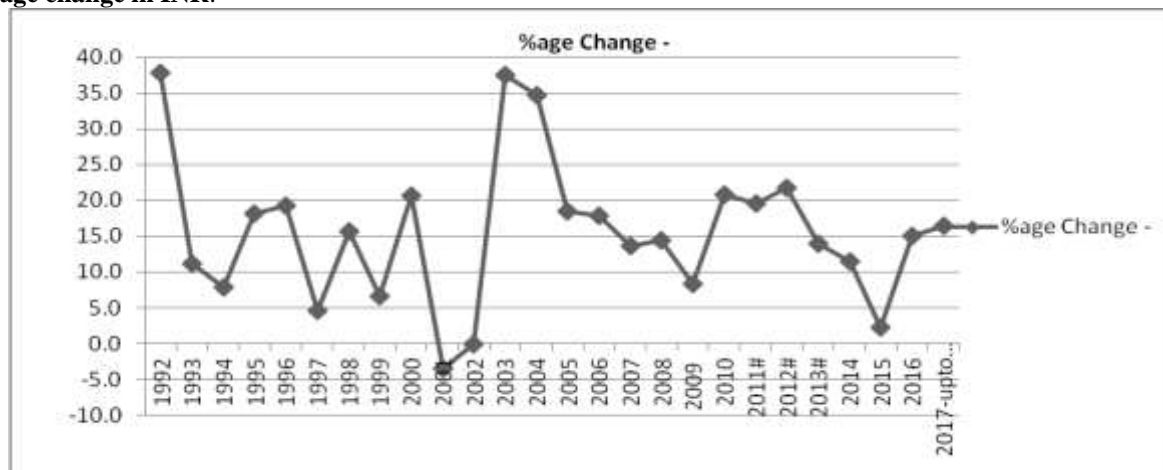
India is a vast country with unique cultural, great spiritual heritage and ethical values along with distinct traditions. This exclusive *sui generis* attract domestic and foreign travelers. Our ethical value says that “Athithi Devo Bhava”, welcomes and pleases the foreign arrivals. Our rich spiritual values including pattern of *bhakti-sadhna*, yoga, meditation, Indian philosophy allured foreign tourists. The historical and architectural sites, handicrafts, sports events- specially various league matches and tournament, educational facilities, IT industries, cultural events, festivals, fairs wildlife sanctuaries, pilgrim centers, forts, universities, reservoirs ,beaches, temples, national parks, etc in the Country welcomed by peoples around the globe.

As above graph shows that there are linear upward trends with steep slope means rapid increasing in foreign tourist arrivals (FTAs) over passage of the time. In 2001, total FTAs were increases to 25,37,282 from 16,77,508 in 1991. However percentage change of FTAs recorded -4.2% in 2001, followed by -6.0 % in 2002. In order, it accounted -2.2% in 2009 after achieving highest growth ever in 2008 by 26.8%. The total FTAs increase all time high in 2016 to 8.8 mn in whole number along with 9.7% growth of the sector.

Foreign Exchange Earnings (FEEs) directly related to FTAs, enrich foreign exchange reserve. FEEs comes from payments made by foreigners on goods and services, required to purchase domestic currency. Business tour is the main source of FEEs. Foreign exchange earnings are depends on comparative exchange rate between destination country and a country from where a tourist belongs to. If exchange rate depreciates (or devaluation takes place), then domestic currency would cheaper than foreign currency (or dollar). Depreciation in INR induces foreign tourist arrivals.

It could be seen in 1996, FEEs was 10046 crore falls from highest 84300 (1995) crore in INR terms, even though it in increases in percentage from 18.2% to 19.2. Whilst in dollar earnings increase to USD 2832mn in (9.6%) 1996 from 2583mn (13.7%) in 1995. In percentage it is reverse in comparison to INR. This is happened due to change in foreign exchange rate.

Fig.-9: Percentage change in INR.

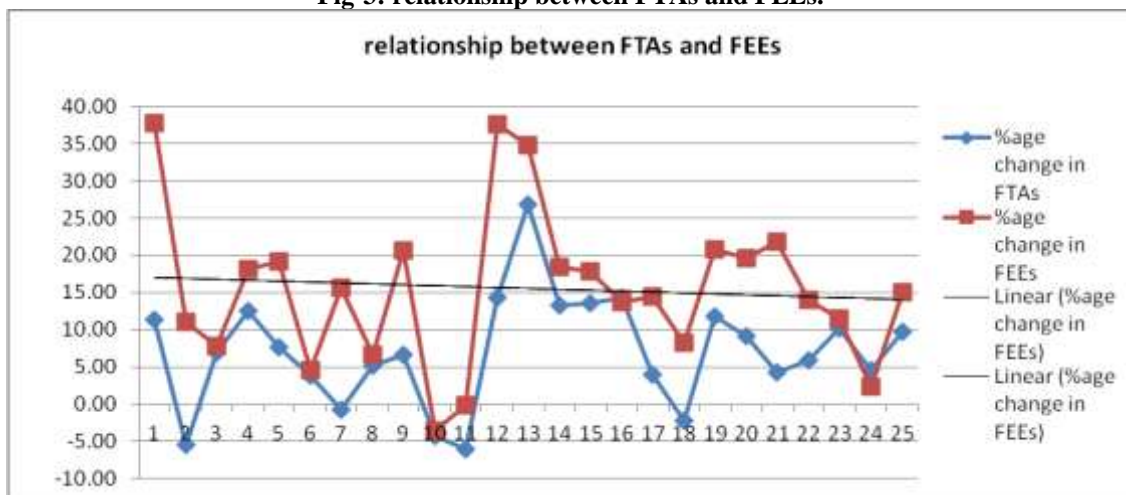


Source: Ministry of Tourism, GoI

Likewise when inflation rises, it reduces the INR value which depreciates exchange rate over the time. Gives incentives to tourists to visit India. If inflation increases in their own country, they disincentives to visit other country. Inflation and interest rate have their effects on exchange rate. Inflation is more likely to have a significant negative effect rather than positive. Inflation is closely related to interest rates, can influence exchange rate although it is not lone factor.

In 2016, FEEs was INR 1,55,650 thousands crores(USD 23.146 bn) which received 9.8% growth USD terms with adjusted exchange rate while in INR its growth is 15.1%. year 2003 golden year for dollar earnings which accounted 43.8% growth highest till days while it was year 1992 for INR earnings , recorded 37.8% growth.

Fig-3: relationship between FTAs and FEEs.



Source: Ministry of Tourism, GoI

There is positive relation between FTAs and FEEs. When FTAs increases, FEEs also increase and vice-versa. In 1991 both were higher and 1992 both were reduced, likewise both were higher in 2003 and reduced to FEEs growth in 2004 but FTAs growth low in 2005 with one year lag. Although it shows inverse trends in 2016, some time it has one year lag but almost changes is taken in the same direction. It can be seen in the above graph (fig.-3). Both display linear trends with more flatness- mean average of growth are less responsive over the year.

Visitor exports contribution in total export remains stagnant with range 4-6% (averaged ~5%). Growth of visitors was negative in 1997, 2001, 2002, 2009, while recorded highest in 2003 & 2004. This shows the effects of world financial crisis. Visitor exports are a key component of the direct contribution of Travel & Tourism. In 2016, India generated INR1, 529.3bn in visitor exports. In 2017, this is expected to grow by 5.4%, and the country is expected to attract 9,450,000 international tourist arrivals. By 2027, international tourist arrivals are forecast to total 17,284,000, generating expenditure of INR2,901.7bn, an increase of 6.1% pa.

Conclusion

Tourism is front seat driver to lead world economic growth in 21st century. It is the largest segment of world economy, generating wealth and employment instead of leisure, business, learning and experience across the world. Now tourism is one of the best instruments of economic development. It is boon for naturally beautiful islands and developing country by providing employment opportunities, foreign exchange earnings, and income for locals, and dissemination of soft power. It helped in preservation of natural and historical heritage of country, developing world class infrastructure, promoting peace and stability.

Its role in Indian economy is very impressive. It accounted to contribute in FOREX by USD 22.92bn. The travel and tourism contribution to GDP is INR 14, 019bn (8.2%) in and forecasted to INR 28, 492bn (6.7%) in 2027. Employment increases by 40,343 thousands (2.3%) and forecasted to grow 49868 thousands (2%) in 2027. it is good we have achieved satisfied result from the Travel & Tourism but future prospect is worrisome. However, our Rich cultural and natural heritage, historical and religious places attracts world tourist towards India. But tourism industry in any country flourishes on the competitive availability of infrastructure, accommodation, transportation, hospitality, governance, visa policy and other facilities which provided by government instead of rich tourism endowment of a country.

To attract the foreign tourists in India, liberal policies and reduction in taxes along with a comprehensive package including single window for visa clearance, easy visa on arrivals for attracting tourist and foreign investment. There should be tourist police *thana* comprising smart and tourist friendly police for safeguarding the tourists safety. There should mega exhibition of Indian soft power- various *melas* in different parts of India. There are also needs to increase the government's role, better coordination between central ministry of tourism and ministry of state, and between states, establishment of brands to make global hub of tourism.

Year 2017 is the International Year of Sustainable Tourism for Development announced by the UN. The International Year provides an enormous opportunity to further showcase the tremendous economic, social, cultural, environmental, and heritage value that the sector can bring.

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