

# Tourism Development in Nepal: Prospects and Challenges

<sup>1</sup>Mr. Satish Bajracharya, <sup>2</sup>Dr. K.V Raju

<sup>1</sup>Post-Graduate Student, <sup>2</sup>Professor

<sup>1</sup>Department of Economics, <sup>2</sup>Department of Economics

<sup>1</sup>Sacred Heart College, Kochi, India

<sup>2</sup>Sacred Heart College, Kochi, India

**Abstract:** Tourism plays a vital role in the Nepalese economy. Tourism not only generates employment and foreign exchange earnings but also acts as a linchpin for poverty alleviation. This study tries to address some of the major challenges and prospects of tourism development in Nepal. It is based on Nepalese data on tourist arrivals, tourist receipts, capital investment in travel and tourism, and GDP per capita for the period 1995 to 2018. An analysis was conducted for tourist arrivals and tourist receipts. It showed a steady increase in both the variables albeit some fluctuations. A multiple regression model was used to analyze the relationship between the variables. The regression results showed that GDP per capita and capital investment in the tourism sector had a positive impact on tourist arrivals. In contrast, events such as the royal massacre in 2001 and the earthquake in 2015 had a negative impact on tourist arrivals. The important role played by capital grants, low-interest capital loans, research and development grants, and digital marketing towards tourism development has been discussed. On the other hand, political instability and natural disaster like the 2015 earthquake were found to act as a hindrance. Furthermore, the article highlights the need for a tourism policy that not only tackles these issues but also takes full advantage of the tourism potential of Nepal.

**Keywords:** Tourism, Tourism development, Nepal tourism, Growth, Nepal economy

## I. INTRODUCTION

The performance of the global tourism sector has been virtually exemplary over the past few years. The tourism sector has experienced sustained growth for the 9<sup>th</sup> consecutive year – following a negative growth rate in 2009 in tourist arrivals and receipts. International tourist arrivals reached 1.4 billion growing at a rate of 5% in 2018. At the same time, international tourist receipts grew at 4.4% outpacing the world's Gross Domestic Product (GDP) growth (UNWTO, 2019). Historical developments, in the context of Nepal, have provided a strong platform for tourism. The Malla and the Lichchavi period have played a significant role in shaping up the customs and traditions in Nepal. The foundations laid down during the two eras is one of the reasons tourists are attracted to Nepal (Shrestha & Shrestha, 2012). Tourism also occupies an important place in the Government's plans and policies. The First Five Year Development Plan (1956-1960) emphasized the need for tourism infrastructure development (MoCTCA, 2014). Furthermore, the Nepalese tourism sector is peculiar in nature. The seasonality factor in the tourism industry is somewhat smoothed out due to inbound overseas tourists, in addition to the Indian and Chinese tourists, visiting the country in alternate seasons (MoCTCA, 2014). With the advent of "Visit Nepal 2020", the performance of the tourism sector is vital for the Nepalese economy. In 2017, Nepal experienced a 25% growth in tourist arrivals in comparison to the preceding year. The tourist arrivals reached 9,40,218 in the same year (MoCTCA, 2018). Foreign exchange earnings from the sector have been Nepali Rupees (NPR) 47.59 billion till mid-March of Fiscal Year (FY) 2018/19 (MOF, 2019). In addition, tourism encompasses a broad dimension covering social, economic, cultural and environmental factors. Such factors can have both positive as well as negative influence (Vanhove, 2005).

The road ahead towards tourism development is bound by challenges as well as opportunities. It is ideal to recognize and highlight these aspects in order to properly plan and move towards a common objective of prosperity and growth in the sector. The main purpose of this paper is to identify such factors and present the issues in a coherent manner with the appropriate steps needed.

## II. RESEARCH METHODOLOGY

### 2.1.1 Framework and Model

The framework of this study constitutes of an analysis of tourist arrivals and receipts along with a multiple linear regression model. An analysis of tourist arrivals and tourist receipts is conducted to make inferences about the performance of the tourism sector. Additionally, the multiple linear regression is used to assess the impact of the independent variables on the dependent variable. The model used is:

$$\text{Tourist Arrivals} = \beta_0 + \beta_1 \text{GDPpc} + \beta_2 \text{noh} + \beta_3 \text{kinv} + \alpha_1 D1 + \alpha_2 D2 + \alpha_3 D3 + e \quad (1)$$

Where,

GDPpc = GDP per capita of Nepal

noh = number of hotels

kinv = capital investment in travel and tourism

D1 = 1 for royal massacre in 2001

0 otherwise

D2 = 1 for the council of ministers dissolved for the first time by King Gyanendra in 2002

0 otherwise

D3 = 1 for earthquake in 2015

0 otherwise

The dependent variable in our model is tourist arrivals and the independent variables are GDP per capita of Nepal, number of hotels, capital investment in travel and tourism (includes both public and private investments), D1, D2, and D3. D1, D2, and D3 are taken as dummy variables.

### 2.2.1 Data Sources

The data collected for this study were from various publications of international institutions and government agencies. The time period covered for this study is from 1995 to 2018. The data on tourist arrivals were collected from the Nepal tourism statistics published by the Ministry of Culture, Tourism and Civil Aviation (MoCTCA, 2018). Similarly, data on the number of hotels and tourist receipts were collected from various editions of economic survey from the Ministry of Finance (MOF, 2004, 2014, 2019). Data regarding GDP per capita of Nepal was collected from World Bank open data portal (World Bank, 2019). Similarly, data on capital investment were taken from the World Travel and Tourism Council data gateway (WTTC, 2019).

## III. RESULTS AND DISCUSSION

### 3.1.1 Tourist Arrivals in Nepal (1995 to 2018)

The inbound international tourist arrivals in Nepal has shown a steady increase albeit some fluctuations. In 1995 the number of inbound tourist arrivals reached 363,395. By 1999, it had reached 491,504 recording a 35.25% growth in tourists since 1995. In contrast, the early 2000s was a tumultuous period for the Nepalese economy. The royal massacre on 1 June 2001 caused a state of confusion and speculation in the economy. In addition, the ongoing Maoist insurgency during the period led to safety and security issues in the country. Moreover, in 2002 due to the inability of the prime minister to hold elections, King Gyanendra dissolved the council of ministers and consolidated power for the first time (Thapa, 2003). From 1999 to 2002, the arrivals had decreased by 43.95%. The added political instability along with security issues seems to have affected the tourist arrivals. The following years recorded a gradual increasing trend in tourist arrivals. The tourist arrivals reached 736,215 in 2011. The primary objective of the Nepal tourism year 2011 was to bring one million international tourists in the country but it failed to reach the target by some margin. In 2015, the arrivals plummeted down to 538,970. This can be accounted to the earthquake in 2015. Post-2015, the arrivals had drastically increased. From 2015 to 2018 the tourist arrivals have drastically increased by 117.65%. Overall, from 1995 to 2018 the tourist arrivals grew by 222.80%.

Table 3.1.1: Tourist Arrivals in Nepal

| Date | Tourist Arrivals | Percentage Change |
|------|------------------|-------------------|
| 1995 | 363,395          | 0                 |
| 1996 | 393,613          | 8.31              |
| 1997 | 421,857          | 7.18              |
| 1998 | 463,684          | 9.91              |
| 1999 | 491,504          | 6                 |
| 2000 | 463,646          | -5.67             |
| 2001 | 361,237          | -22.09            |
| 2002 | 275,468          | -23.74            |
| 2003 | 338,132          | 22.75             |
| 2004 | 385,297          | 13.95             |
| 2005 | 375,398          | -2.57             |
| 2006 | 383,926          | 2.27              |
| 2007 | 526,705          | 37.19             |
| 2008 | 500,277          | -5.02             |
| 2009 | 509,956          | 1.93              |
| 2010 | 602,867          | 18.22             |
| 2011 | 736,215          | 22.12             |
| 2012 | 803,092          | 9.08              |
| 2013 | 797,616          | -0.68             |
| 2014 | 790,118          | -0.94             |
| 2015 | 538,970          | -31.79            |
| 2016 | 753,002          | 39.71             |
| 2017 | 940,218          | 24.86             |
| 2018 | 1,173,072        | 24.77             |

Source: (MoCTCA, 2018) (Percentage change is computed by the author)

Table 3.1.2: Percentage change in tourist arrivals at different time periods

| Time Period  | Percentage Change |
|--------------|-------------------|
| 1995 to 1999 | 35.25%            |
| 1999 to 2002 | -43.95%           |
| 2015 to 2018 | 117.65%           |
| 1995 to 2018 | 222.80%           |

Source: (MoCTCA, 2018) (Percentage change is computed by the author)

### 3.2.1 Tourist Receipts in Nepal (1995/96 to 2017/18)

Tourist receipts are one of the major sources of revenue generation for the government. Table 3.2.1 shows the tourist receipts in Nepal from FY 1995/96 to 2017/18. Despite some fluctuations, the period from 1995/96 to 1998/99 encountered a steady increase in tourist receipts. However, the period from 1999/00 to 2001/02 was marked by a notable decrease in the tourism receipts. In the FY 2001/2002, the country experienced -26.14% change in tourist receipts in comparison to the preceding year. The political unrest along with the royal massacre seems to have impacted the foreign exchange earnings from tourism. From 2001/2002 onwards the tourist receipts show an increasing trend. In 2004/05 the country registered a -42.34% change in foreign exchange earnings. The following year also encountered a decline in tourist receipts. The FY 2007/08 and FY 2008/09 marked a drastic increase in tourism receipts by 84.23% and 49.89% respectively. The launch of “Nepal Tourism Year 2011” in 2008 seems to have played an important role during this period. The 2015 earthquake also played a dominant role in affecting the foreign exchange earnings in FY 2015/16. There was -21.83% change in foreign exchange earnings in comparison to the preceding year. By FY 2017/18 the tourist receipts have reached NPR 67,094.60 million.

Table 3.2.1: Tourist Receipts in Nepal  
In NPR million

| Fiscal Year | Tourist Receipts | Percentage Change |
|-------------|------------------|-------------------|
| 1995/96     | 9,521.2          | 0                 |
| 1996/97     | 8,523            | -10.48            |
| 1997/98     | 9,881.6          | 15.94             |
| 1998/99     | 12,167.8         | 23.14             |
| 1999/00     | 12,073.9         | -0.77             |
| 2000/01     | 11,717           | -2.96             |
| 2001/02     | 8,654.3          | -26.14            |
| 2002/03     | 11,747.7         | 35.74             |
| 2003/04     | 18,147.4         | 54.48             |
| 2004/05     | 10,464           | -42.34            |
| 2005/06     | 9,556            | -8.68             |
| 2006/07     | 10,125           | 5.95              |
| 2007/08     | 18,653           | 84.23             |
| 2008/09     | 27,960           | 49.89             |
| 2009/10     | 28,139           | 0.64              |
| 2010/11     | 24,611           | -12.54            |
| 2011/12     | 30,703.8         | 24.76             |
| 2012/13     | 34,210.6         | 11.42             |
| 2013/14     | 46,374.9         | 35.56             |
| 2014/15     | 53,428.8         | 15.21             |
| 2015/16     | 41,765.4         | -21.83            |
| 2016/17     | 58,526.9         | 40.13             |
| 2017/18     | 67,094.6         | 14.64             |

Source: (MOF, 2004, 2014, 2019) (Percentage change is computed by the author)

**3.3.1 Regression Results of Tourism Development in Nepal**

Table 3.3.1: OLS (Ordinary Least Squares) Results

| Variable                                       | Coefficient  | Std. Error |
|--|--------------|------------|
| Constant                                       | 183768.453*  | 54640.331  |
| GDP per capita Nepal                           | 571.477*     | 75.175     |
| Number of hotels                               | -161.217     | 96.003     |
| Capital investment in travel and tourism       | 0.002*       | 0.001      |
| D1   | -141230.362* | 59227.736  |
| D2   | -114894.216  | 56484.688  |
| D3   | -264586.431* | 55564.133  |
| R-squared                                      |              | 0.960      |
| Adjusted R-squared                             |              | 0.946      |
| Breusch-Godfrey test (autoregressive (AR (1))) |              | 1.182      |

\*Significant at 5% level

After checking for the assumptions of OLS, the multiple linear regression model was run. The regression results are shown in Table 3.3.1. The adjusted  $R^2$  shows that 94.6% of the variation in tourist arrivals is explained by the independent variables. Four of the independent variables are significant at the 5% level. In contrast, the number of hotels and D1 is found to be insignificant at the 5% level. Surprisingly there seems to be a negative relation between the number of hotels and tourist arrivals. This may be due to the under-reporting of the hotels in the dataset provided by Nepal Tourism Statistics. There is a drastic decline in the number of hotels at one point in the dataset after which the frequency of hotels gradually starts to increase again. The GDP per capita of Nepal and capital investment in the travel and tourism sector in Nepal have a significant positive impact on the number of tourist arrivals in the country. On the other hand, the differential intercept coefficient of D1 and D3 have a significant negative impact on the number of tourist arrivals at the 5% level. The coefficient of GDP per capita of Nepal is 571.477. It means that a 1 unit increase in GDP per capita of Nepal will increase the tourist arrivals by 571.447 units. Similarly, the coefficient of capital investment in travel and tourism is 0.002. A 1 unit increase in capital investment in travel and tourism will increase the tourist arrivals by 0.002. The coefficient of D1 is -141230.362 and that of D3 is -264586.431. The respective coefficient shows that tourist arrivals were significantly lower during the year of the royal massacre and earthquake.

**3.4.1 Prospects and Challenges of Tourism Development in Nepal**

Nepal with rich and diverse geography from the north to the south consists of a plethora of scenic beauties, mountains, floras and faunas. It constitutes of the eight highest peaks in the world which are above 8000 meters. The Mount Everest (8848 meters) is one of the famous tourist attractions among them. Numerous UNESCO world heritage sites are also located within the country such as Swayambhunath, Pashupatinath, Chitwan National Park, Lumbini etc. It is also home to 3.2 percent and 1.1 percent of the world's flora and fauna, despite occupying only 0.1 percent of the global area (MoFSc, 2014). The rich heritage along with the distinct natural resources present in the country makes it ideal for tourism. There is a huge potential in the tourism sector which is yet to be realized.

Furthermore, it can be observed from Table 3.3.1 that GDP per capita of Nepal and capital investment in the travel and tourism sector contributes positively towards tourist arrivals. Small tourism firms in low-income countries like Nepal have major difficulties in competing with foreign competition due to their high initial costs. In order to realize the tourism potential of Nepal, the government should give capital grants to domestic businesses, low interest-bearing loans for improvement in tourism businesses and aids, especially for research and development purposes. The government can also rely more on public-private partnership approach. In addition, capital investment by the government is also necessary. Meanwhile, Gautam (2011) has shown that there is bi-directional causality between tourism growth and economic growth in Nepal. Thus, appropriate policies to generate more income and rapid economic growth should be assessed and developed strategically. At the same time, the growth policies adopted should also give special emphasis on tourism as it also acts as a linchpin for poverty alleviation in countries like Nepal (Shrestha & Shrestha, 2012).

The tourism-economy linkages provide an insightful perspective on the intricacies of the tourism industry. Vanhove (2005) has highlighted the comparative advantages of tourism. The comparative advantages can be experienced in terms of natural endowments, imports, growth rate, exports, and labor intensity. Tourism helps create jobs, generate income, increase foreign exchange earnings, expand the industrial structure as well as promote economic development (Dwyer & Forsyth, 1993). On the other hand, economic development can also lead to tourism development. Proper physical infrastructure, human resource, transportation and communication system can lead to further enhancement of the tourism sector.

Moreover, the use of digital marketing for tourism promotion has not been properly utilized by the government. More emphasis should be given towards e-tourism and e-tourism marketing for attracting more tourists in the country (Kumar Batala, Regmi, Sharma, & Ullah, 2019). Doing so will not only decrease cost but also increase efficiency of the operations. At the same time, political instability and security issues also pose as a serious threat to tourism development. As can be observed from Table 3.3.1, events such as royal massacre and earthquake had a serious impact negatively on the tourist arrivals. A systematic and stable government is key towards tourism growth. Even though natural disasters such as earthquakes are unavoidable, we can increase the resistance of the community towards such events by adopting proper disaster relief and recovery plan. Preservation and reconstruction of some of the cultural sites remain a serious issue in the post-earthquake period. At the same time, lack of proper physical infrastructure, environmental degradation, and pollution remains a serious challenge to tourism development in Nepal. A holistic approach should be adopted where all the stakeholders including the government should work harmoniously to tackle such issues with a proper plan and strategy.



#### IV. CONCLUSION

This study tries to address the prospects and challenges of tourism development in Nepal. The regression results showed that GDP per capita of Nepal and capital investment in the travel and tourism have a positive impact on the number of tourist arrivals. However, it has also been observed that events such as natural disasters and political instability can have a significant negative impact on the tourist arrivals. They pose as a threat to tourism development along with some other issues such as lack of physical infrastructure and pollution. Therefore, there is need for a proper policy that not only tackles these issues but also takes full advantage of the opportunities yet to be realized in the tourism sector.

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