

## TOURISM AND ECONOMIC GROWTH: EVIDENCE FOR INDIA

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### Abstract

Tourism is one of the major social and economic phenomena of modern times. It is being considered as an efficient tool for promoting economic growth of a nation. The tourism industry in India has been witnessing rapid growth and development during the last few decades. It possesses a huge potential which can add pace to the overall economic and socio-cultural development of the country. This paper is a sincere attempt to examine the dynamics of the relationship between tourism sector expansion and economic growth in India. The study uses time series data to prove the relationship between tourism and economic growth. Simple statistical techniques have been used to establish this relationship. Therefore, with regard to policy implications it can be argued that economic policies should be directed towards improving the Indian tourism industry to produce a higher economic growth rate.

Key words: Tourism; India; Economic growth; Tourism sector expansion; Policy Implications.

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## I. Introduction

Tourism is a commercial organisation of holidays and services to tourists. The *OECD glossary of statistical terms* defines tourism as, *the activity of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visited.* (stats.oecd.org.glossary.detail.asp/id-2725). There are various definitions of tourism, the word *tour* is derived from the *Latin word*, 'tornare' and the *Greek word*, 'tornos', meaning, "a lathe or circle; the movement around a central plank or axis".Theobald, (1994). The *Wikipedia Journal* highlights a *tour* as, *it represents a journey that is around trip, i.e., the act of leaving and then returning to the original starting point and therefore, one who takes such a journey can be called a tourist* (Wikipedia.org/wik tourism). The *Macmillan Dictionary* defines tourism as, *the business of providing services for people who are travelling for their holiday.* Tourism is the fourth largest industry in the global economy. Tourism, as a commercial entity has experienced continuous growth, deepening and diversification to become one of the fastest growing economic sectors in the world. Tourism is an emerging global industry with the power to shape developing countries in both positive and negative ways.

Tourism has become one of the most significant economic activities in many developing countries. Tourism recently is considered as a potential strategic factor for economic growth. The speedy growth of tourism causes an increase in household incomes and government revenues through multiplier effects, and it also leads to improvements in the balance of payments, and growth of the tourism industry in general. Tourism not only contributes to the foreign exchange earnings of the nation, but it also creates employment opportunities, which adds to the economic growth particularly gross domestic product growth of the nation.

In recent years, the role of tourism in the economic development of a country has been the focus of study and research. It is general consensus that tourism has been pivotal in social progress as well as an important vehicle for widening socio-economic and cultural contacts throughout human history. Over the past years, many developing and developed countries have considered tourism as an option for sustainable development of their nations. The importance of tourism as a contributor to economic growth is so widely accepted that year after year throughout the world a massive investment continues to pour in its development.

Tourism today has become an important segment of the Indian economy contributing substantially to sustainable development of the country. India has succeeded in becoming the most preferred place amongst domestic and overseas travellers. Tourism exposes international travellers to India's diverse culture. The tourism sector has been instrumental in generating foreign exchange, employment opportunities and household income for Indians, as it has in many other developing economies. Thus, the development of the tourism sector appears to have been as important as the development of other sectors of the Indian economy. Mishra P K *et al.* (2011)

Tourism in the Indian context presently has become an important segment and is substantially contributing to economic growth. With regard to the foreign tourist arrivals, India is the most preferred destination for them; it is a symbol of an economic and social change. In recent year's globalization and open economy has helped tourism sector to emerge as one of the best foreign exchange earners and it also brings in the opportunity of infrastructure development. Basically it is a service oriented industry and capable of creating more employment and income.

India has a great historical legacy, we have many historical world heritage sites like, Tajmahal in Uttar Pradesh; Khajuraho in Madhya Pradesh; Ajanta and Ellora in Maharashtra; and Aihole, Pattadkal and Hampi in Karnataka etc, these heritage sites have been attracting many foreign travelers as well as domestic tourists to India. The Government of India is largely promoting the tourism policy, this pro-tourism policy has changed the scenario that previously existed, the result being the emergence of many tourist centers in India, that is; Aurangabad in Maharashtra; Khajuraho in Madhya Pradesh; Jammu & Kashmir; Raghurajpur in Orissa etc. Mishra P K *et al.* (2011)

Tourism is regarded as an engine of growth. Nevertheless, it is serving the same purpose in India also. Today it is considered as the largest service industry both domestic as well as foreign tourist earning contributes to 6.23 percent of the GDP growth and providing 8.78 percent of the total employment. Mishra P K *et al.* (2011). The tourism industry has generated US \$ 100 billion in 2008 and it is predicted to increase to US \$ 275 billion by 2018. It will cover the 9.4 per cent of annual growth rate. The World Travel and Tourism Council has declared India will be a Tourism hotspot from 2009-2018.

As per the Travel and Tours Competitiveness Report -2009, India stood 11<sup>th</sup> rank in Asia-Pacific Region the world attractiveness destination and it shows 24<sup>th</sup> rank for its natural and cultural resources. The India Travel and Tourism industry ranked 5<sup>th</sup> position in the long-term growth and the second largest employment provider in the world.

Tourism sector is expected to contribute to the country's overall socio-economic development. In this backdrop, this paper is an attempt to examine the dynamics of the relationship between tourism and economic growth for India.

## II. Review of Literature

In the analysis of tourism, economists have emphasized the economic effects of tourism development on the economy. Because tourism is a multidisciplinary activity that involves several industries and draws upon a variety of skills, its benefits are spread over a wider section of society compared other sectors of the economy. Pioneering studies have highlighted the potential effects of the tourism industry in promoting growth, creating jobs and general revenue for the government and this economic relationship is known as tourism led growth.

Ministry of Tourism, GOI (2010) India Tourism Statistics at a Glance, this report highlights several years' data on various aspects of tourism. It examines the role of tourism sector in the long-run GDP and economic development of the country and this report is an important literature available for the study.

Mishra. P.K *et al.* (2011) highlight development of tourism has been considered a positive contribution to economic growth. It also highlights rapid growth of tourism sector causes an increase of household income and government revenue through its multiplier effects, improvements in Balance of Payments and growth of employment opportunities etc.

Ministry of Tourism, GOI (2009) Tourism Statistics 2008, the report highlights Development and Impact of Tourism Industry in India; it is the largest service industry and contributes to employment opportunities. It highlights promotion of tourism in India and maintains the Incredible India Campaign; it is an important literature for the study of tourism activity.

Krieshan M M (2010) highlights that there is a positive relationship between tourism development and economic growth in the long run, moreover tourism earnings contribute to socio-economic development in the country.

Samimi *et al.* (2011) highlight the long run relationship between economic growth and tourism development in developing countries. Tourism has become one of the most significant export sector of many developing countries, it triggers overall economic growth and it can promote to an income increase at least in two additional ways, first by enhancing through increased competition among firms and other international tourist destinations. Second it facilitates the exploitation of economies of scale in local firms

Kaplan M and Celik T (2011) highlights the importance of tourism as a major source of income which is recognized by all countries in the world. It engages fierce competition and generates substantial economic benefit to host countries.

It is worthwhile to mention in this context that the available literature is supportive of the current study and the present study is an attempt to analyze the relationship between tourism activity and economic growth in India.

### III. Objectives

The following are the objectives of the paper;

- To analyze the relationship between tourism activity and economic growth.
- To highlight the importance of the component- Foreign Tourist Arrivals (FTA) in India.

### IV. Data and Methodology

The paper has used data in annual figures covering thirteen years period from 1997 to 2009. The variables of the study are Gross Domestic Product (GDP), which is a comprehensive measure of economic growth; in order to measure the tourism activity, variables like, Foreign Tourist Arrivals (FTA) and Foreign Exchange Earnings (FEE) exclusively from tourism have been used. Simple techniques of percentage change over the years and bar graphs have been used to show the number of foreign tourist arrivals and top ten source countries for foreign tourist arrivals to India. Simple regression and correlation analysis have also been used to establish the

relation between GDP and foreign exchange earnings from tourism sector, the contribution of foreign exchange earnings from tourism over the years has been depicted through a graph also.

## V. Results and Discussion

The simple regression and correlation analysis is used to establish the relationship between Gross Domestic Product (GDP) and Foreign Exchange Earnings (FEE) from tourism. The foreign exchange earnings from tourism have 1.998 (approximately 2%) impact on economic growth of the nation. There is highly perfect correlation between the variables as the value is 0.995098. To assess the regression model, Gross Domestic Product (GDP) at current prices for the period chosen was taken as a dependent variable and Foreign Exchange Earnings (FEE) from tourism as an independent variable. These results imply that in the long run tourism activity has a positive role to play in the economic growth of India.

As mentioned in the methodology above, the following tables and graphs depict the true picture of the variables of study for the intended period of study;

**Table-1: Foreign Tourist Arrivals (FTA) in India**

Year	FTA in India (in million)	Percentage(%) change over the previous year
1997	2.37	3.8
1998	2.36	-0.7
1999	2.48	5.2
2000	2.65	6.7
2001	2.54	-4.2
2002	2.38	-6.0
2003	2.73	14.3
2004	3.46	26.8
2005	3.92	13.3



2006	4.45	13.5
2007	5.08	14.3
2008	5.28	4.0
2009	5.17	-2.2

Source: Bureau of Immigration, Government of India.

**Graph-1: Foreign Tourist Arrivals (FTA) in India**



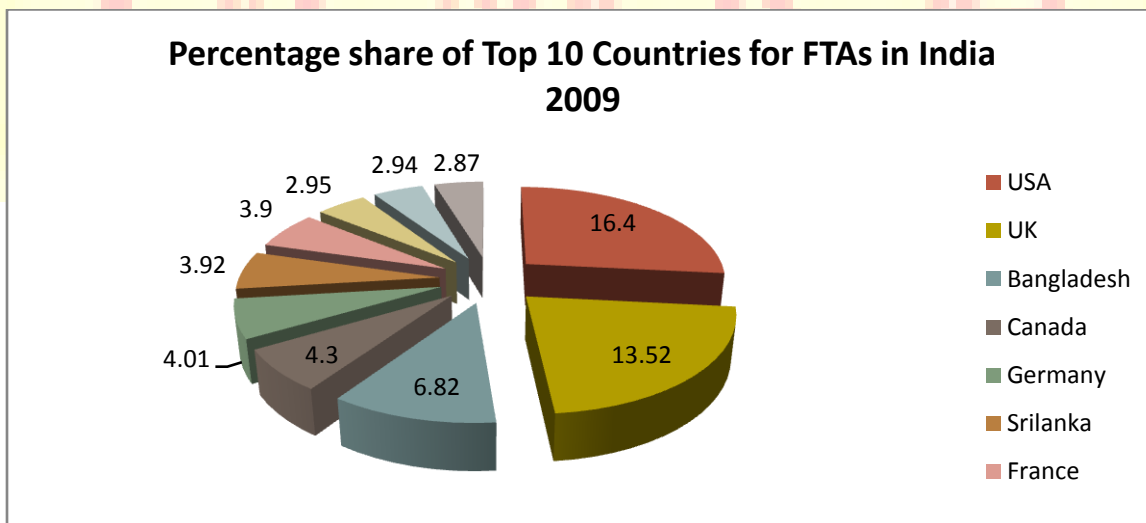
The Table-1 and Graph-1 show the number and percentage change in foreign tourist arrivals to India over the years. The data reveals many trends in the arrivals of foreign tourists to India. For four years the percentage change has been negative but it was the maximum during 2004, this was the result of the pro-tourism policy of the government of India, which served for the increase in the number of foreign tourist arrivals to India. The tourism programs like incredible India, Pravasi Bharatiya Divas, Athithi Devobhava have also fuelled this tremendous increase. But the global economic slowdown and especially the bad state of economic affairs in USA led to a negative 2.2 percent in 2009.

**Table-2 Top 10 Source Countries for Foreign Tourist Arrivals (FTA) in India in 2009**

Rank	Source Country	FTA (in Millions)	Percentage (%) Share
1	USA	0.916	16.40
2	UK	0.755	13.52
3	Bangladesh	0.381	6.82
4	Canada	0.240	4.30
5	Germany	0.224	4.01
6	Srilanka	0.219	3.92
7	France	0.218	3.90
8	Japan	0.165	2.95
9	Australia	0.164	2.94
10	Malaysia	0.160	2.87
	Total of Top 10 Countries	3.442	61.64
	Others	2.142	38.36
	All Countries	5.584	100.00

Source: Bureau of Immigration, Government of India.

**Graph-2: Top 10 Source Countries for Foreign Tourist Arrivals (FTA) in India in 2009**





The Table-2 and Graph-2 analyze the top 10 countries for Foreign Tourist Arrivals (FTA) to India. United States America (USA) stood first in total number of foreign tourist arrivals; it was 16.4 percent that is 0.916 million travelers from USA visited India. The next important source of foreign tourist arrivals was from United Kingdom that is 13.52 percent of the total foreign tourist arrivals to India were from this country. The other source countries of foreign tourist arrivals to India included; Bangladesh, Canada, Germany, Srilanka, France, Japan, Australia. Malaysia stood tenth in the list, all the ten source countries of foreign tourist arrivals to India represent 3.442 million travelers that is 61.64 percent and the other countries represent 2.142 million travelers that is 38.36 percent of the total.

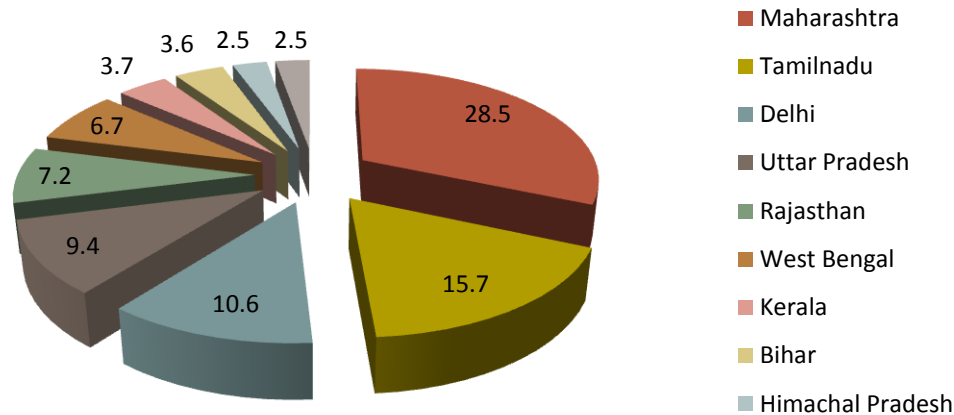
**Table-3: Share of Top 10 States/UTs of India in Number of Foreign Tourist Visits in 2009**

Rank	State/UT	Foreign Tourist Visits in 2009	
		Number	Percentage Share (%)
1	Maharashtra	5083126	28.5
2	Tamilnadu	2804687	15.7
3	Delhi	1893650	10.6
4	Uttar Pradesh	1675123	9.4
5	Rajasthan	1278523	7.2
6	West Bengal	1192187	6.7
7	Kerala	659265	3.7
8	Bihar	635722	3.6
9	Himachal Pradesh	453616	2.5
10	Goa	441053	2.5
	Total Top 10 States	16116952	90.3
	Others	1735825	9.7
	Total	17852777	100

Source: Bureau of Immigration, Government of India.

**Graph-3: of Top 10 States/UTs of India in Number of Foreign Tourist Visits in 2009**

### Percentage Share of Top 10 States/Uts of India in Number of Foreign Tourist Vists in 2009



The Table-3 and Graph-3 shows the top ten Indian states with maximum number of foreign tourist visits, Maharashtra held the first position compared to the other States, the number of foreign tourist visitors were 5083126 and percentage share was 28.5. The State has many advantageous features to attract foreign tourists, it has a world class International Airport at Mumbai, and many historical places are in a very good condition and infrastructure facilities provided by the State are good. The second most frequently visited state was Tamil Nadu, the number of visitors was 2804687 and percentage share was 15.7. The State has many religious places and many tourist hotspots and this is the reason why it is attracting a large number of foreign tourists. The other states among the top ten which attracted large number of foreign travelers were Delhi, Uttar Pradesh, Rajasthan, West Bengal, Kerala, Bihar, and Himachal Pradesh. Goa represented tenth position, it is a small state, the number of visitors was 441053 and percentage share was just 2.5. The top ten states have taken a lion share of attracting FTAs, their percentage share was around 90.3 and other states represented a small percentage that is 9.7. Therefore, India being a multi-cultural, multi-linguistic, multi-religious and rich heritage country is emerging as a favorite destination to many foreign tourists.

Table-4: Foreign Exchange Earnings (FEE) from Tourism in India

Year	FEE from Tourism in India (in Rs. Crore)	Percentage (%) change over the previous year
1997	10511	4.6
1998	12150	15.6
1999	12951	6.6
2000	15626	20.7
2001	15083	-3.5
2002	15064	-0.1
2003	20729	37.6
2004	27944	34.8
2005	33123	18.5
2006	39025	17.8
2007	44360	13.7
2008	51294	15.6
2009	54960	7.1

Source: Reserve Bank of India

Graph-4: Foreign Exchange Earnings (FEE) from Tourism in India



The Table-4 clearly shows the trend of foreign exchange earnings from tourism over the years, in the year 1997 the total foreign exchange earnings from tourism was around 10511 crores and the percentage share was 4.6. The growth rate increased in the year 2000, it was around 15626 corers and percentage share was 20.7, this was because of the promotional efforts of the government to boost tourism activity in the country, but this trend unfortunately could not continue and in the year 2002, it fell by 0.1 percent, the main reason for this was the terrorist attack on World Trade Centre at USA in 2001, this attack made its implications felt on India's tourism as the number of arrivals which evidently was highest from USA fell and so did the foreign exchange earnings from tourism. The foreign exchange earnings from tourism again caught an increasing momentum in 2003, it was around 20729 corers and percentage was 37.6, this was the highest growth rate compared to all the thirteen years period. From the year 2004 onwards the foreign exchange earnings from tourism growth rate was showing fluctuating trends, later on the global economic slowdown and the world economic crisis especially the poor economic affairs in USA led to a further decline in the foreign exchange earnings from tourism.

**Table-5: Share from Tourism FEE in total GDP**

Year	Percentage share of FEE to GDP
1997	0.67
1998	0.72
1999	0.72
2000	0.83
2001	0.76
2002	0.73
2003	0.93
2004	0.94
2005	1.0
2006	1.09

2007	1.13
2008	1.25
2009	1.22

The Table-5 shows the percentage share of Foreign Exchange Earnings (FEE) in total GDP of India. International tourism is major foreign exchange earner for many countries but the analysis of data suggests that the foreign exchange earnings from tourism have contributed marginally to the economic growth of the country. The historical experience of many countries tells about the significant role of tourism activity in promoting economic growth. This is evident with regard to India also, though tourism has a marginal contribution to the GDP but yet this is not negligible as it has increased from 0.61 percent in 1997 to approximately 2 percent in 2008, this is definitely note taking. This increase can also be attributed to the international exposure given to India as a heritage and tourist destination.

## VI. Summary and Conclusion

In this paper, the relationship between GDP, Foreign Tourist Arrivals (FTA) and Foreign Exchange Earnings (FEE) has been investigated through simple methodologies. The data have also been analysed using simple regression and correlation techniques.

The findings of this study confirm that the tourism-led growth has a positive impact on the economic activity and GDP growth. The study also indicates the stable long run relationship between tourist activities and GDP growth rate; it means that tourist activities will increase in the future. The rationale of government role for providing tourist facilities is essential.

Tourism sector in India encounters many hassles like, poor infrastructure, lack of hospitality, lack of resources to well maintain the tourist places, ill maintained lodging facilities, poor connectivity to many places in India and so on. These are some of the obstacles on the way of the growth of tourism sector in India.

Some of the suggestions put forward for the growth of tourism would include; firstly the government should concentrate on providing good transportation and communication system which is a pre requisite for a tourist attracting economy, secondly, upholding and providing of security to the visiting tourists is very important as history shows that there is always a positive correlation between the increase in foreign tourist visits and a secure destination, thirdly, the government should announce tax incentives to the hotels, air fares and tourism related industries, fourthly, promoting eco-tourism, as it encourage and helps in preserving and sustaining the diversity of the country's natural and cultural environment.

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