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## A STUDY ON GROWTH OF TOURISM INDUSTRY AND ITS IMPACT ON INDIAN ECONOMY

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### Abstract

*Tourism is an economic activity of immense global importance. Perhaps there is hardly any other field of activity where so many people are involved directly or indirectly. Tourism is often portrayed as panacea for many evils such as underdevelopment, unemployment, poverty, social discrimination and so on. Tourism is the largest service industry in India, with a contribution of 6.5 per cent to the national GDP, providing 7.7 per cent of the total employment. India witnessed more than 8.2 million foreign tourist arrivals and 1436 million domestic tourist arrivals in 2015 (WTTC Reports). The tourism industry in India generated about US\$ 100 billion in 2008 and that is expected to increase to US\$ 275.5 billion by 2018 at a 9.4 per cent annual growth rate. As per WTTC Report 2017 India is expected to establish itself as the fourth largest Travel & Tourism economy by 2027, both in terms of direct and total contribution to GDP, only behind China, the USA and Germany it is thus imperative to examine growth of tourism industry in India and its impact on Indian economy. To attain aforesaid objective tourist arrivals both foreign and domestic and share of India in World arrivals and Asia and Pacific Region arrivals for last fifteen years have been taken into consideration and to find the impact of tourism on Indian economy three broad elements have been taken into consideration that is role of tourism in GDP, contribution of tourism to employment and foreign exchange earnings from tourism. The study is descriptive and analytical in nature and entirely based on secondary data. Compound Annual Growth Rate, Instability Index, and Linear Growth Rate has been used to highlight data pertaining to the said objectives The result shows that tourism has a tremendous role in economic growth of the country. Therefore, as a part of the policy implications it is necessary that all wings of the central and state governments, private bodies and voluntary organizations should become the active partners in the endeavor to attain sustainable growth in tourism and overall economy as well.*

**Keywords:** *Tourism, Growth, Impact, India.*

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## Introduction

Tourism is now a major area of concern to academics, government, industry and public at large because of its importance as an important catalyst in the socio-economic development in the modern times, contributing in multiple ways by strengthening the inter-connected processes. While often portrayed as panacea for many evils such as underdevelopment, unemployment, poverty, social discrimination and so on, its contribution in creating a global and regional socio-political environment for peaceful co-existence of the cultures and societies has equally established at various levels. Almost all countries of the world have accepted the huge potentialities of tourism in income generation, employment creation and infrastructure development. As Edgell points out, tourism serves to stimulate the development of basic infrastructure, contributes to the growth of domestic industries, attracts foreign investment, and facilitates the transfer of technology and information. According to WTC Report 2017 in 2016, Travel & Tourism directly contributed US\$2.3 trillion and 109 million jobs worldwide. Taking its wider indirect and induced impacts into account, the sector contributed US\$7.6 trillion to the global economy and supported 292 million jobs in 2016. This was equal to 10.2 percent of the world's GDP, and approximately 1 in 10 of all jobs. In 2016, global visitor exports accounted for 6.6% of total world exports (a total of US\$1.4 trillion) and almost 30 per cent of total world services exports.

Tourism in India has grown by leaps and bounds over the years, with each region of India contributing something to its splendor and exuberance. It is a treasure house of cultural and traditional embellishes as reflected in its artifacts, scenic beauties of the rivers, sea and mountains, thus enabling it to gain a prestige in the international area. As per WTC Report 2017 India is expected to establish itself as the fourth largest Travel & Tourism economy by 2027, both in terms of direct and total contribution to GDP, only behind China, the USA and Germany. India is ranked 11<sup>th</sup> in the Asia pacific region and 40<sup>th</sup> over all, moving up a lot on the list of the worlds attractive destinations (MOT). As per the Travel and Tourism Competitiveness Report 2009 by the World Economic Forum, It is ranked the 14<sup>th</sup> best tourist destination for its natural resources and 24<sup>th</sup> for its cultural resources, with many world heritage sites, both natural and cultural, rich fauna, and strong creative industries in the country. India also bagged 37<sup>th</sup> rank for its air transport network. The India Travel and Tourism Industry ranked 5<sup>th</sup> in the long-term (10-year) growth and is expected to be the second largest employer in the world by 2019. Given the diversity in India, its tourism potential is immense. The Indian tourism industry accounts for about 6.5 percent of the country's GDP and 7.7 of the total employment (WTC 2012). It is the second largest foreign exchange earner.

## Methodology

With this background mentioned in introduction and observing the importance of tourism in Indian economy it is thus imperative to examine growth of tourism industry in

India and its impact on Indian economy. To attain aforesaid objective tourist arrivals both foreign and domestic and share of India in World arrivals and Asia and Pacific Region arrivals for last fifteen years have been taken into consideration and to find the impact of tourism on Indian economy three broad elements have been taken into consideration that is role of tourism in GDP, contribution of tourism to employment and foreign exchange earnings from tourism. The study is entirely based on secondary data collected from various sources like Ministry of Tourism Government of India, State/UT Tourism Departments, World Tourism Organization and Tourism Competiveness Report 2009 & 2012 and World Travel and Tourism Council Reports. Further various published research papers and reports of State and Central Government have been used to arrive at the aforesaid objectives of the study. Compound Annual Growth Rate, Instability Index, and Linear Growth Rate have been used to highlight data pertaining to the said objectives.

## Results and Discussions

### Foreign and Domestic Tourist Arrivals in India

Tourist arrivals generates income and employment, If we look at the data of last sixteen years, it would be observed that there has been a continuous increase in trend both in foreign and domestic tourist arrivals in India. A comparison of the foreign & domestic can be made with the help of table 1.

**Table 1 Foreign and Domestic Tourist Arrivals in India**

Year	Foreign Tourist Arrivals (in Million)	% Change Over the Previous Year	Domestic Tourist Arrivals (in Million)	% Change Over the Previous Year
2000	2.65	6.7	220.11	15.4
2001	2.54	-4.2	236.47	7.4
2002	2.38	-6.0	269.60	14.0
2003	2.73	14.3	309.04	14.6
2004	3.46	26.8	366.27	18.5
2005	3.92	13.3	392.01	7.0
2006	4.45	13.5	462.32	17.9
2007	5.08	14.3	526.56	13.9
2008	5.28	4.0	563.03	6.9
2009	5.17	-2.2	668.80	18.8
2010	5.78	11.8	747.70	11.8
2011	6.31	9.2	864.53	15.6
2012	6.58	4.3	1045.05	20.9
2013	6.97	5.9	1142.53	9.3
2014	7.68	10.2	1282.80	12.3
2015	8.03	4.5	1431.97	11.6

**Source:** Ministry of Tourism, Government of India

### Instability Index, Compound Annual Growth Rate and Regression Results of Foreign and Domestic Tourist Arrivals in India

Description	Instability Index	CAGR	R <sup>2</sup>	Liner Slope
Foreign Arrivals	37.90	7.67	0.97	0.389* (24.502)
Domestic Arrivals	59.34	13.27	0.93	79.307* (14.182)

**Notes: 1. Figures in parentheses are the respective 't' values, 2. \*Indicates one percent level of significance**

Table 1 displays the data on foreign and domestic tourist arrivals to India during 2000 to 2015, the table also reveals Instability Index, CAGR, and regression results of the same. Regarding the number of foreign tourists who visited states and union territories of India, it is noticed that the number stood at 2.65 million in the year 2000 and it increased to 8.03 million in the year 2015. The highest percentage change over previous year was observed in the year 2004 (i.e. 26.8 per cent). This value was negative in the years 2001, 2002 and 2009. The CAGR of foreign tourist arrivals for the reference period was 7.67. The instability index was 37.90 and liner slope was 0.389. The R<sup>2</sup> value of foreign tourist arrivals was .97 which is significant at one percent level of significance. The domestic arrivals in India had increased from 220.11 million in 2000 to 1431.97 million in 2015. The highest percentage change over previous year was for the year 2012(20 per cent) and the same value was positive for all years. The compound annual growth rate for domestic tourist arrivals was 13.27. The instability index was very high 59.34 and the linear slope was 79.307. The R<sup>2</sup> was .93 which is significant at one percent level.

### Share of India in Foreign Tourist Arrivals (FTAs) in World and Asia & the Pacific Region

India occupies a prominent position in foreign tourist arrivals among the countries of Asia and the Pacific Region. Hence, a comparative study on India's share in foreign tourist's arrival in World and Asia and the Pacific region is worthy and this is done in Table 2.

**Table 2 Share of India in Foreign Tourist Arrivals (FTAs) in World and Asia & the Pacific Region**

Year	Foreign Tourist Arrivals (in Million)		Foreign Tourist Arrivals In India (in Million)	% Share and Rank of India in World in Terms of Foreign Tourist Arrivals		% Share and Rank of India in Asia and the Pacific Region in Terms of Foreign Tourist Arrivals	
	World	Asia and the Pacific		% Share	Rank	% Share	Rank
2000	683.3	109.9	2.65	0.39	50 <sup>th</sup>	2.42	11 <sup>th</sup>
2001	683.4	114.5	2.54	0.37	51 <sup>st</sup>	2.22	12 <sup>th</sup>
2002	703.2	123.4	2.38	0.34	54 <sup>th</sup>	1.93	12 <sup>th</sup>

2003	691.0	111.9	2.73	0.39	51 <sup>st</sup>	2.44	11 <sup>th</sup>
2004	762.0	143.4	3.46	0.45	44 <sup>th</sup>	2.41	11 <sup>th</sup>
2005	803.4	154.6	3.92	0.49	43 <sup>rd</sup>	2.53	11 <sup>th</sup>
2006	846.0	166.0	4.45	0.53	44 <sup>th</sup>	2.68	11 <sup>th</sup>
2007	894.0	182.0	5.08	0.57	41 <sup>st</sup>	2.79	11 <sup>th</sup>
2008	917.0	184.1	5.28	0.58	41 <sup>st</sup>	2.87	11 <sup>th</sup>
2009	883.0	181.1	5.17	0.59	41 <sup>st</sup>	2.85	11 <sup>th</sup>
2010	950.0	205.1	5.78	0.61	42 <sup>nd</sup>	2.83	11 <sup>th</sup>
2011	996.0	218.2	6.31	0.63	38 <sup>th</sup>	2.90	9 <sup>th</sup>
2012	1035.0	233.6	6.58	0.64	41 <sup>st</sup>	2.82	11 <sup>th</sup>
2013	1087.0	249.8	6.97	0.64	42 <sup>nd</sup>	2.79	11 <sup>th</sup>
2014	1133.0	263.0	7.68	0.68	41 <sup>st</sup>	2.92	12 <sup>th</sup>
2015	1186.0	279.2	8.03	0.68	40 <sup>th</sup>	2.88	11 <sup>th</sup>
CAGR	3.74	6.41	7.67	Mean=.572		Mean=2.82	

**Source:** Government of India, Ministry of Tourism

### Instability Index, Mean, and Regression Results of Share of India in Foreign Tourist Arrivals (FTAs) in World and Asia & the Pacific Region

Description	Instability Index	Mean	R <sup>2</sup>	Liner Slope
India's Share in World Arrivals	21.61	.572	0.93	0.024 * (13 .797)
India's Share in Asia & Pacific Region	10.92	2.82	0.69	0.051 * (5.66)

**Notes: 1. Figures in parentheses are the respective 't' values, 2. \*Indicates one percent level of significance**

The share of India in foreign tourist arrivals had increased from 0.39 per cent in 2000 to 0.67 in 2015 among world countries. Percentage share of foreign tourist arrivals to India when compared to World foreign tourist arrivals is calculated to be less than one per cent with an average of .572 during the reference period. However from 2007 onwards a slight improvement in share from 0.53 to 0.68 per cent is also witnessed. In terms of rank, it had improved from 50th position to 40th position during the reference period. The instability Index of share of India in world foreign tourist arrivals was 21.61, the linear slope was 0.024 and the R<sup>2</sup> was 0.93 which was significant at one percent level of significance.

In Asia and Pacific Region the share of India in foreign tourist arrivals increased from 2.42 in 2000 to 2.88 in 2015. The percentage share of arrival of foreign tourists in India in the total foreign tourist arrivals to Asia and the Pacific region also remained more or less the same with an average of 2.82 during the reference period. India's rank in Asia and the Pacific region remained in 11th position throughout the year 2000 to 2015 except for a few years. The Instability Index of share of India in foreign tourist arrivals to Asia and Pacific region was 10.92, the linear slope was 0.051 and R<sup>2</sup> was .69 which was significant at one per cent level of significance.

## Impact of tourism on Indian Economy

To examine the impact of tourism on Indian economy three broad elements has been taken into consideration

### Direct Contribution of Travel and Tourism to GDP of India and World

Travel and tourism direct contribution to GDP is equivalent to the total internal travel and tourism spending within a country minus purchases made by those industries (including imports). In terms of the UN's Tourism Satellite Account (TSA) methodology, it is consistent with total GDP. Travel & Tourism's direct contribution to GDP grew by 3.1% in 2016. This was faster than the global economy as a whole which grew at 2.5%, meaning that for six consecutive years, the Travel & Tourism sector has outperformed the global economy (WTTC 2017). According to the Travel and Tourism Competiveness Report 2009 brought out by World Economic Forum, the contribution of travel and tourism to gross domestic product (GDP) is expected to be at US\$ 187.3 billion by 2019. The report also states that real GDP growth for travel and tourism economy is expected to achieve an average of 7.7 per cent for annum over the next ten years. A comparison on the travel and tourism direct contribution to GDP of World and India is helpful to ascertain the role of tourism in Indian economy. This is explained in table 3.

**Table 3 Direct Contribution of Travel and Tourism to GDP of India and World**

Year	India			World		
	In U.S \$ (Billion)	% share	Real Growth %	In U.S \$ (Billion)	% Share	Real Growth %
2000	12.792	2.7	12.8	1201.2	3.6	7.33
2001	10.365	2.2	-17.8	1175.8	3.5	0.19
2002	12.424	2.4	19.7	1182.3	3.4	-0.3
2003	15.225	2.6	13.2	1291.3	3.3	-0.61
2004	17.201	2.5	4.3	1450.1	3.3	4.67
2005	16.361	2.1	-11.4	1522.5	3.2	1.02
2006	18.833	2.1	11.7	1263.7	3.2	2.8
2007	23.856	2.1	9.2	1799.3	3.1	2.7
2008	26.439	2.1	6.9	1907.5	3.02	-1.45
2009	25.203	2.0	1.6	1770.5	2.96	-3.24
2010	31.295	1.9	6.9	1875.7	2.4	2.87
2011	35.811	1.9	7.2	2107.0	2.9	5.28
2012	35.901	1.9	6.7	2164.5	2.93	4.1
2013	36.999	1.9	5.7	2269.9	2.99	4.29
2014	40.140	1.9	8.3	2364.2	3.04	4.07
2015	41.582	2.0	8.0	2229.8	3.04	2.8

**Source:** Reports of WTTC from 2000-2017

### Instability Index, CAGR, and Regression Results of Direct Contribution of Travel and Tourism to GDP of India and World

Description	Instability Index	CAGR	R <sup>2</sup>	Liner Slope
India's GDP	42.17	8.18	0.95	2.209*(17.416)
World GDP	24.89	4.21	0.92	90.343*(12.434)

**Notes: 1. Figures in parentheses are the respective 't' values, 2. \*Indicates one percent level of significance**

Direct contribution of tourism to GDP of India was 12.792 billion US Dollars in the year 2000 and it increased to 41.58 billion US Dollars in the year 2015. The percentage share of direct contribution of tourism to GDP of India was 2.7 per cent and it declined to 2.0 per cent during the reference period. The real growth percentage of direct contribution of tourism to GDP of India showed a mixed trend during the last fifteen years. The compound annual growth rate of direct contribution of tourism to GDP of India was 8.18 with a very high instability index of 42.17. The linear slope was 2.09 and R<sup>2</sup> value was .95 which is significant at one percent level of significance.

Regarding the world economy the direct contribution of travel and tourism to GDP had increased from 1201.2 billion US Dollars in the year 2000 to 2229.8 billion US Dollars in the year 2015. The percentage share of direct contribution of travel and tourism to World GDP was 3.6 per cent in the year 2000 and it declined to 3.04 per cent in the year 2015. The CAGR of direct contribution of tourism to world GDP for the reference period was 4.21. The instability index was 24.89 and liner slope was 90.343. The R<sup>2</sup> value of direct contribution of tourism to world GDP was .92 which is significant at one percent level of significance

### Direct Contribution of Travel and Tourism to Employment in India and World

Direct contribution of travel & tourism to employment means the number of direct jobs within the travel and tourism industry. Many developing nations consider tourism sector as a panacea to reduce their unemployment problems. The direct contribution of Travel & Tourism to employment grew by 1.8% in 2016 meaning almost 2 million net additional jobs were generated directly by the sector, and a total of around 6 million new jobs created as a result of total direct, indirect and induced activity. This means that almost 1 in 5 of all new jobs created in 2016 were linked to Travel & Tourism and By 2027, Travel & Tourism is expected to support more than 380 million jobs globally, which equates to 1 in 9 of all jobs in the world and the sector is expected to contribute around 23% of total global net job creation over the next decade. (WTTC 2017) Table 4 compares the employment generation of tourism sector in India with that of the world during the last fifteen years.

**Table 4 Direct Contribution of Travel and Tourism to Employment in India and World**

Year	India			World		
	In '000s	% Share	Real Growth %	In '000s	% Share	Real Growth %
2000	22013.8	6.9	21.6	89712	3.7	11.86
2001	19697.4	5.7	-15.1	87580	3.56	-2.38
2002	20651.6	6.2	10.5	89607	3.59	2.31
2003	21874.7	6.5	5.9	90698	3.59	1.22
2004	22185.3	6.4	1.4	94628	3.67	4.33
2005	21180.3	5.9	-4.5	95831	3.66	1.27
2006	23104.0	6.4	9.1	9199	3.73	3.51
2007	21981.1	5.9	-4.9	98652	3.64	-0.55
2008	23676.5	6.3	7.7	8524	3.59	-0.13
2009	22495.9	5.9	-4.9	96201	3.48	-2.36
2010	21717.9	5.5	-3.5	96916	3.46	0.74
2011	22045.7	5.5	1.5	98748	3.47	1.89
2012	22202.6	5.5	0.7	101191	3.51	2.47
2013	22471.2	5.4	1.2	103095	3.53	1.88
2014	23022.3	5.5	2.5	105356	3.57	2.19
2015	23454.4	5.5	1.9	107833	3.61	2.35
<b>Correlation Coefficient</b>			<b>0.75</b>			

Source: WTC Reports 2000-2017

**Instability Index, CAGR, and Regression Results of Direct Contribution of Travel and Tourism to Employment of India and World**

Description	Instability Index	CAGR	R <sup>2</sup>	Liner Slope
India's Employment	4.45	0.42	0.31	121.224*** (2.387)
World Employment	5.37	1.32	0.85	1070.168* (8.691)

**Notes: 1. Figures in parentheses are the respective 't' values, 2.\* Indicates one percent level of significance 3. \*\*\* Indicates ten percent level of significance**

Table 4 contains a data on direct contribution of travel and tourism to employment of India and world during 2000 to 2015, the table also reveals Instability Index, CAGR, and regression results of the same. The contribution of travel and tourism to employment in India increased from 22013.8 thousand jobs in 2000 to 23454.4 thousand jobs in 2015. In the initial stages, the percentage share of the direct contributions of travel and tourism to India's employment showed a declining trend up to the year 2013, after it increased in the year 2015 to 5.5 percent. The real growth rate of India world showed a mixed trend and the compound annual growth rate was



positive for India (0.42 per cent). The instability index was 4.45 and linear slope was 121.22 and the  $R^2$  value was .31 which is significant at 10 per cent level of significance.

In case of world the direct contribution of tourism to employment increased from 89712 thousand jobs in year 2000 to 107833 thousand jobs in year 2015. The percentage share of world in this case remained more or less stable throughout the period. The real growth rate of contribution of travel and tourism to world employment also showed a mixed trend and the compound annual growth rate was 1.23 per cent. The instability Index of the direct contribution of tourism to employment in world was 5.37, the linear slope was 1070.16 and the  $R^2$  was 0.85 which was significant at one percent level of significance. The data pertaining to this table shows there is a positive correlation between direct contribution of travel and tourism to employment in India and World.

### Foreign Exchange Earnings of India from Tourism (In U.S.Dollar and Indian Rupee)

In the global economy, where international trade and transaction has become so significant that, a country cannot imagine to prosper without foreign exchange earnings. Therefore accumulation of foreign exchange and increasing its reserve has become one of the foremost priorities of any economy. In Table 5 the foreign exchange earnings of India through tourism are analyzed for a period of fifteen years.

**Table 5 Foreign Exchange Earnings of India from Tourism (in U.S. Dollar and Indian Rupee)**

Year	In U.S \$ (Million)	% Change over Previous Year	In Rs. (Crore)	% Change over Previous Year	Foreign Tourist Arrivals In India (in Million)
2000	3460	15.0	15626	20.7	2.65
2001	3198	-7.6	15083	-3.5	2.54
2002	3103	-3.0	15064	-0.1	2.38
2003	4463	43.8	20729	37.6	2.73
2004	6170	38.2	27944	34.8	3.46
2005	7493	21.4	33123	18.5	3.92
2006	8634	15.2	39025	17.8	4.45
2007	10729	24.3	44360	13.7	5.08
2008	11832	10.3	51294	15.6	5.28
2009	11136	-5.9	53700	4.7	5.17
2010	14193	27.5	64889	20.8	5.78
2011	16564	16.7	77591	19.6	6.31
2012	17737	7.1	94487	21.8	6.58
2013	18445	8.0	107671	14.0	6.97
2014	20236	9.7	123320	14.5	7.68
2015	21071	4.1	135193	9.6	8.03
<b>Correlation Coefficient</b>			<b>0.97</b>		

**Source:** Ministry of Tourism, Government of India

### Instability Index, CAGR, and Regression Results of Foreign Exchange Earnings of India from Tourism (in U.S. Dollar and Indian Rupee)

Description	Instability Index	CAGR	R <sup>2</sup>	Liner Slope
Foreign Exchange Earnings in U.S.Dollar	56.37	12.80	0.97	1306.991* (25.66)
Foreign Exchange Earnings in Indian Rupee	68.83	15.47	0.92	8000.893* (13.431)

**Notes: 1. Figures in parentheses are the respective 't' values, 2. \*Indicates one percent level of significance**

The foreign exchange earnings of India from tourism (both in dollar terms and in rupee terms) showed an upward trend during the above said period. The year 2003 witnessed a sharp increase in foreign exchange earnings (a growth of 43.8 per cent in dollar terms and 37.6 per cent in rupee terms). After 2003, the foreign exchange earnings showed a declining trend up to 2009 and again it increased in the year 2010 and after that it showed a declining trend. In rupee terms, the percentage change was negative in the years 2001 and 2002. All other years witnessed a double digit growth except in 2009 and 2015.

In dollar terms the CAGR was 12.80, instability index was 56.37, linear slope was 1306.991 and the R<sup>2</sup> was .97 which is significant at one percent level. In case of Rupee terms the CAGR was 15.47, instability index was very high 68.83, linear slope was 8000.893 and R<sup>2</sup> was .92 which is significant at one percent level of significance. The value of correlation coefficient, (i.e. value of 'r') is 0.97, which shows that there is strong positive correlation between foreign exchange earnings of India from tourism (in rupee terms) and foreign tourist arrivals.

### Conclusion

Tourism is today emerging as a leading sector in the world. In India tourism has remained an instrument of economic growth. With its forward and backward linkages with a host of sectors like transport, hospitality, education health banking etc the study validates the stable long-run relationship between tourist activities and GDP growth rate. It means that if tourists activities increase, the GDP growth rate improves via increase in foreign exchange earnings and the contribution of tourism to employment increases. The analysis revealed that India attracted more foreign and domestic tourists to its destinations during the reference period by registering a compound annual growth rate of 7.67 and 13.27 respectively. The percentage share of India on foreign tourist arrivals among the countries of World and Asia and the Pacific Region showed an increasing trend throughout the reference period. India enhanced its ranking position from 50th to 40th among world countries during a period of fifteen years from 2000 to 2015. The foreign exchange earnings from tourism increased from 15626 crores in 2000 to 135193 crores in 2015 with CAGR of 15.47 and the direct contribution of travel

and tourism industry to GDP and employment of India too showed a good increase. Though there had been great variation in the foreign and domestic arrivals the share of India in World arrivals and Asia and Pacific Region arrivals had not shown much variation as the instability index was comparatively low with 21.61 & 10.92 respectively. Like wise the variation in direct contribution of tourism to employment in India during the reference period was also comparatively low as the instability index was only 4.45. The variation in foreign exchange earnings from tourism and direct contribution of tourism to GDP of India was very great as the instability index was 68.83 and 42.17 respectively.

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