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CONTRIBUTION OF TOURISM SECTOR TO INDIA'S GDP

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ABSTRACT

Tourism and related activities play a significant role in generation of income or Foreign Exchange and provision of employment opportunities. With a review of earlier studies, this paper discusses the contribution of Tourism on growth of Indian economy by showing developments in tourism related economic parameters such as contribution to GDP, Employment, Visitor Export, internal consumption, Capital investment, Foreign Exchange Earnings and Govt. Expenditure. It outlines how far tourism sector contributes to economic growth and development of India. The study estimates the relationship between economic growth and growth in tourist arrivals. The paper also highlights the Global Tourism growth in general and development of tourism industry of India in particular. The other positive and negative effects of international tourism on Indian Economy are also noted. The study covers the data for the period 2001 to 2012. Correlation and Regression analysis are used for the purpose of analysis. The result show a relationship between tourism related economic variables and country's GDP. The implications are identified based on empirical findings.

Keywords: Tourism, India, Gross Domestic Product.

INTRODUCTION

Tourism is a major economic activity in terms of income generation, employment creation, foreign exchange earnings, infrastructure development and interchange of cultures and people. It comprises of sub-industries such as airlines, airports, hotels, manufacturing, tour operators, travel agencies, credit card companies, convention and visitor business, car rental business and other travel related services. Tourism depends on the prevailing economic conditions in major generating markets. As economies grow, a large proportion of their income will be spent on tourism. Inversely, as disposal income falls, tourism spending will tend to decrease. In general, increase in international tourist arrivals results into rise in economic output as measured by Gross Domestic Product (GDP).

Travel and Tourism's total contribution to the global economy rose to 9.5 % of GDP (nearly USD 7 Trillion) in 2013 which has grown for the fourth consecutive year and is expected to rise to 10.3 % in 2024. It continued to perform at 3 % as against the wider economy (2 %) in terms of economic growth in 2013, which is expected to out space growth at 4.3 %. Global Tourism industry grew faster than other significant industries such as Financial and Business services, retail and distribution, public services, transport and manufacturing. Tourism activities created 4.7 million new jobs in 2013 and expected to generate around 6.5 million new jobs in 2014. This industry supported nearly 266 million jobs, which is 9 % of all jobs in the world. Travel and Tourism's investment grew by 3 % (2013) and forecast to increase by 5.6 %. Visitor exports reached USD 1.3 Trillion (2013) and anticipated to increase by 4.8 % in 2014. (WTTC Economic Impact Report 2013 and 2014)

The world's oldest industry is also one of the largest and fastest growing industries today. Tourism experienced continued expansion and diversification. Many new destinations have emerged. International tourist arrivals have shown uninterrupted growth from 25 million in 1950 to 278 million in 1980, 528 million in 1995, 683 million in 2001 and crossed 1 Billion mark in 2012 with 1035 million tourists and expected to reach 1.4 billion by 2020 and 1.8 Billion by 2030. International Tourist receipt reached USD 1,075 billion worldwide in 2012 from USD 463.8 in 2001 (Source: UNWTO Barometer).

In top ranking by International Tourist Arrivals, France continues to top with 83 million visitors in 2012 and is third in International Tourism Receipts with USD 54 billion. The United States ranks 1st in receipts with USD 126 billion and 2nd in arrivals with 67 million. Chinese travelers spent a record USD 102 billion on international tourism in 2012. Regionally, South East Asia is the fastest growing region for both Travel and Tourism's contribution to GDP and Employment growth.

India, as a tourist destination has an immense attractions of its own various angles. Tourism has been recognized as a significant factor in the economy of India. It is the biggest foreign exchange earner for India. It is also an industry creating employment opportunities and generally economic growth. The share of India in International Tourist Arrivals in 2012 was 0.64 % and ranked 41st in the world, with 6.58 million. The share of India in International Tourist Receipts in 2012 was 1.65 % and ranked 16th in the world, with

USD 17.74 billion. The leading source countries for foreign Tourist Arrivals (FTAs) in India in 2012 were USA 1,040 million (15.81 % share) and UK 0.788 million (11.98 % share).

Travel and Tourism's total contribution to Indian Economy was USD 112 billion (6.1 % share) in 2012, which is expected to rise to USD 238 billion by 2020. India's Tourism industry created 0.4 million new jobs in 2012 and supported nearly 35 million jobs. T & T's investment grew by 3 % (2012) and expected to grow at 8.1 % (2013) and 9.8% (2014). Visitor's exports were USD 18.57 billion in 2012.

There are various tourism related economic parameters which contributes to India's GDP. In view of this, a study is conducted to explore the contribution of tourism sector to India's GDP.

LITERATURE REVIEW

The various empirical studies conducted by researchers examined the contribution of tourism on economic growth of different economies in the world. The socio-economic variables used for the studies also vary from study to study and from country to country.

Jackman and Lorde (2012) examined the supply side hypothesis of tourism demand. The results shows that there is a long run relationship between real GDP in Barbados spur tourism growth and found that 1 % expansion in real GDP is associated with a 1-2 % increase in tourist arrivals. Thus supply side hypothesis is valid for Barbados.

Akal (2010) studied the effects of international tourism by showing developments in tourism related economic parameters and found the implications of such tourism on economy of Turkey. He inferred that International Tourism Receipts are important foreign Currency Source for Turkey's international standing. It contributes to debt repayment and recovers current account deficits as well as contributes to national income and employment.

Cohen (1993) noted that in less developed countries, one percent of GDP allocated to debt repayment reduces investment by 0 to 3 percent of GDP, which inhibits investment. It means additional receipts from international tourism as a proportion of national income increases investment by 0.3 percent, as well as saving foreign currency expenses.

The studies are also conducted to test whether international tourism leads to economic growth. In a study, the role of tourism in long run economic development of Spain was examined and found to support the tourism led economic growth hypothesis for data sample of last three decades (Balaguer and Cantavella-Jorda, 2002). One more study found strong causality between international tourism earnings and economic growth for Greece for the period 1960-2000 (Dritsakis, 2004).

Gunduz and Hatemi-J (2005) also found evidence that international tourism does contribute to the long term economic growth of Turkey thereby supporting earlier research conducted by Kasman and Kiebis

(2004) who also found a positive long term co-integrated relationship between international tourism revenues and economic growth in Turkey.

International Tourism generates employment, foreign currency earnings and other revenue sources for GNP, provides income to local people, reduces inequalities among classes under appropriate Tourism support policies and reduces balance of payment deficits, finance import and helps to repay outstanding national debt, etc (Tosun et al, 2003)

In many countries positive effects of international tourism are spreading economic development, promoting global community and international understanding and peace improving standard of living, stimulating local commerce and industry, reinforcing preservation of heritage and tradition. (Goeldner, Ritchie and McIntosh, 2000)

But Oh, 2005) rejects the tourism led economic growth hypothesis in favour of economy driven tourism growth hypothesis for south Korea ; export driven economic growth in south Korea may be a strong causal component of tourism growth. Oh's findings implies that the share of tourism earnings in the GDP must be high in order to validate the tourism led economic growth.

Tourism as a source of income is not easy to measure at least with any degree of accuracy, the reason being of the multiplier effect (Clarke et al, 2009; Brida et al, 2010; Rastegar, 2010). The flow of money generated by tourist spending multiplies as it passes through various sections of the economy through the operation of the multiplier effect. (Dritsakris, 2008; Boopen, 2006).

Ige et al, (2008) in his study indicated that tourism does matter in West Africa. He revealed that for West African countries, the growth in Tourist arrivals has resulted in a significant economic growth during 2000 and 2004. The pooled regression result showed that lagged real GDP per capita, Openness, Quality of governance and number of tourist arrivals are statistically significant.

From the above studies, some of the important tourism related economic parameters are identified, such as **Tourism's contribution to Economic Growth (GDP), Tourism's contribution to Employment**, **Visitors Export, Internal Consumption, Capital Investment, Foreign Exchange Earnings, Foreign Tourist Arrivals and Govt. Expenditure towards tourism.**

OBJECTIVES AND METHODOLOGY

The major objectives of the study are as below.

1. To study the Trends of Global Tourism.
2. To study the Trends of Indian Tourism.
3. To examine the contribution of Tourism sector to India's GDP.

The sources of data collection and methodology of the study is as below.

A) Data Collection

The data set consists of yearly observations for the period 2001 to 2012 i.e. 12 years. The data set is related to World and India. The required data has been obtained from Worlds Bank's World Development Indicators, United Nations World Tourism Organization (UNWTO) and World Travel and Tourism Council (WTTC) Reports.

In this study, Tourism's contribution to India's GDP is a dependent variable and Tourism's contribution to employment, Visitors Export, Tourists Internal Consumption, Capital Investment towards Tourism, Foreign Exchange Earnings, Foreign Tourist Arrivals and Government spending towards tourism is considered as independent variables.

B) Methodology

Statistical tools like Correlation, ANOVA, Regression Analysis (Ordinary Least Square), Time Series Analysis and Graphical presentations are used to analyse the data.

Hypothesis of the study

Ho There is no significant relation between Tourism's contribution to GDP and independent variables (factors) i.e. Tourism's contribution to Employment, Visitors Export, Internal Consumption, Capital Investment, Foreign Exchange Earnings, Foreign Tourist Arrivals and Govt. Expenditure towards tourism.

Analysis and Discussion

A) Trends of Global Tourism

The trend of International Tourist Arrivals (ITAs) at global level since 2001 is increasing. In 2001, number of tourists arrived were 683.4 million which increased to 1,035 million in 2012 crossing 1 billion mark. Even the International Tourism Receipts (ITRs) at the globe were USD 463.8 billion in 2001, which reflects an increasing trend and reached USD 1,075 billion in 2012. France tops the ranking of International Tourist Arrivals with 83 million visitors in 2012 (8.027 %).United States ranks 1st in receipts with USD 126 billion, (11.74 %). China became the number one source market in the world in 2012 spending USD 102 billion on international tourism (9.5 % market share).The contribution of world Tourism to employment is also increased from 236 million of 2001 to 261 million in 2012 (8.9 % share) (Source: UNWTO)**.**

B) Trends of Indian Tourism

The Foreign Tourist Arrivals (FTAs) in India also shows the increasing trends from 2.5 million in 2001 to 6.58 million in 2012 (Figure 1). Similarly, the Foreign Exchange Earnings (FEE) also shows the increasing trend reaching USD 17,737 million in 2012 from USD 3,198 million of 2001 with an exception of year 2009, when it reduced slightly (Figure 2). The maximum tourist arrivals in India are from U.S.A. i.e. 1.040 million in 2012 (15.81 %). India ranked 41st in the World for ITAs with 6.58 million (0.64 % share) and 16th for ITRs with USD 17.7 Billion (1.65 % share) in 2012.

FIGURE 1: TREND OF FOREIGN TOURIST ARRIVALS IN INDIA (IN MILLIONS)

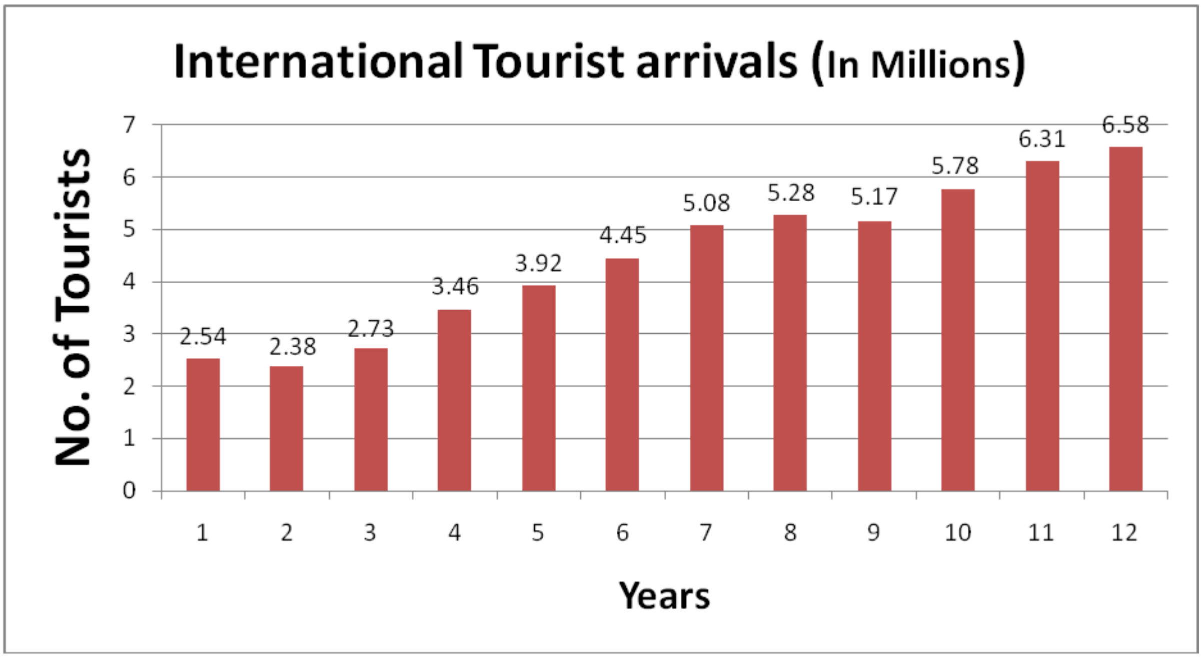
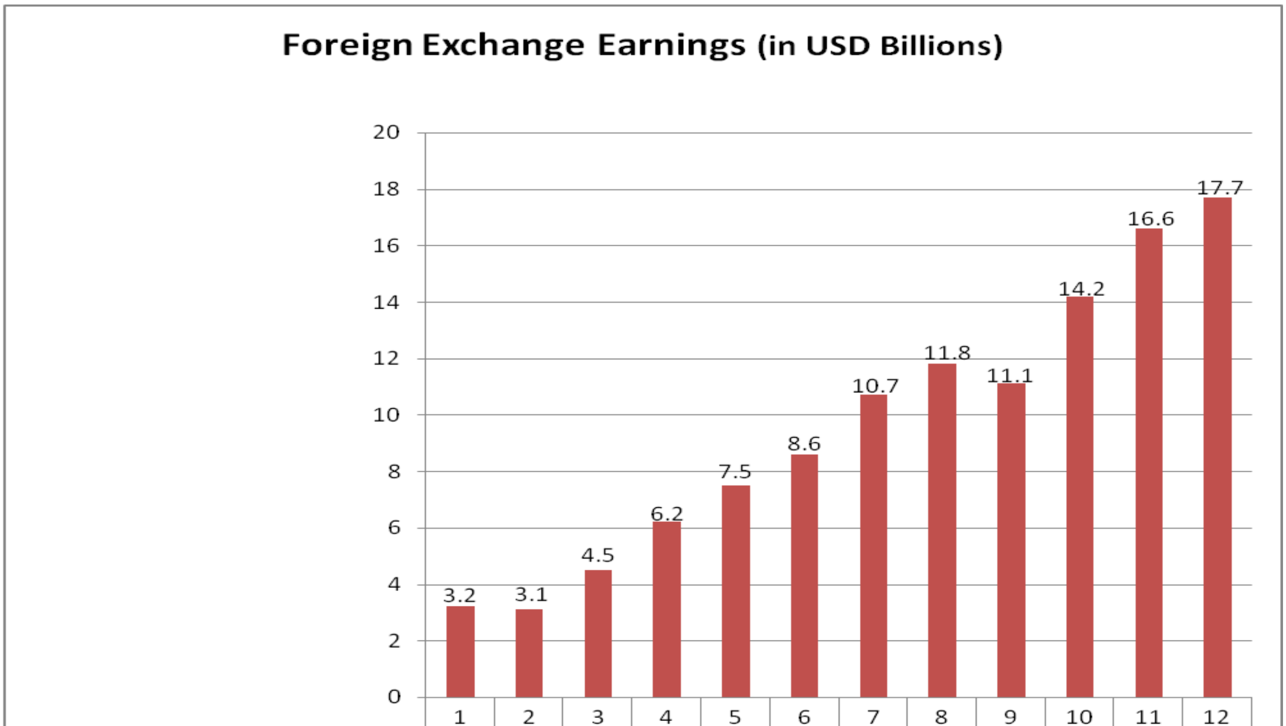


FIGURE 2: TREND OF FOREIGN EXCHANGE EARNINGS IN INDIA (IN USD BILLIONS)



	1	2	3	4	5	6	7	8	9	10	11	12
Foreign Exch Earnings (USD Bn)	3.2	3.1	4.5	6.2	7.5	8.6	10.7	11.8	11.1	14.2	16.6	17.7

C) Contribution of Tourism to India's Gross Domestic Product

CORRELATION ANALYSIS

Table 1: Correlation Matrix (Pearson Correlation)

	GDP	CEMP	VEXP	INT CONS	CAP INVST	FEE	GOVT SPEND	INTNL TA
GDP	1							
CEMP	-.623*	1						
VEXP	.988**	-.678*	1					
INTCONS	.994**	-.646*	.990**	1				
CAPINVST	.925**	-.768**	.919**	.912**	1			
FEE	.985**	-.674*	.999**	.988**	.918**	1		
GOVTSPEND	.968**	-.759**	.982**	.984**	.910**	.979*	1	
INTNLTA	.974**	-.663*	.987**	.965**	.919**	.990*	.953**	1

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Table 1 exhibits the result of correlation matrix. The Karl Pearson's correlation coefficient (r) explains that there exist strong positive correlation between Tourism's contribution to India's GDP and visitors Export (r=0.988), Internal consumption (r=0.994), capital Investment (r=0.925), Foreign Exchange Earnings (r=0.985), Govt. Expenditure towards Tourism (r=0.968) and International Tourism Arrivals (r= 0.974). But, Tourism contribution to GDP have moderate negative correlation with Employment (r= - 0.623) and their Correlation is significant at the 5% level.

TABLE 2: MODELS SUMMARY AND ANOVA (DATA SET 2001-2012)

Model	R	R^2	Adjusted R^2	S.E.of Regression	Durbin Watson	F value	P value
1		0.999	0.997	1.496254	2.660	513.351	9.72e -06
2		0.999	0.998	1.343672	2.568	742.645	3.31e -07
3	0.999	**0.998**	**0.997**	**1.504357**	**2.849**	**710.561**	**3.14e -08**

Predictors: (Constant), INTNLTA, CEMP, CAPINVST, GOVTSPEND, VEXP, FEE, INTCONS Predictors: (Constant), INTNLTA, CEMP, INTCONS, GOVTSPEND, VEXP, FEE . Predictors: (Constant), INTNLTA, GOVTSPEND, INTCONS, VEXP, FEE
Dependent Variable: GDP

TABLE 3: MODEL 3: REGRESSION ANALYSIS (OLS) USING OBSERVATIONS 1-12

Dependent variable: Tourism Contribution to GDP

	Coefficient	*Std. Error*	*t-ratio*	*p-value*	
Constant	-20.2434	6.988	-2.8969	0.02745	**
Visitor Export_	4.82561	2.04697	2.3574	0.05648	*
Internal Consumption	1.48143	0.167805	8.8283	0.00012	***
Foreign Exchange Earnings	-0.00901806	0.0025341	-3.5587	0.01195	**
Government Spending	-90.9144	39.6319	-2.2940	0.06161	*
International Tourist Arrivals	12.7836	3.10815	4.1129	0.00627	***

*. Correlation is significant at the 0.10 level.

** Correlation is significant at the 0.05 level.

***. Correlation is significant at the 0.01 level.

The nature of relationship between the various independent variables and the dependent variable is shown in Table 4.

TABLE 4: ACTUAL SIGN OF RELATIONSHIP WITH GDP

Sr. No	Variable/Factor	Abbreviation	Relation with GDP
1.	Gross Domestic Product from Tourism (Dependent Variable)	GDP	-
2.	Tourism contribution to Employment	CEMP	Negative
3.	Visitors Export	VEXP	Positive
4.	Internal Consumption	INTCONS	Positive
5.	Capital Investment	CAPINVST	Positive
6	Foreign Exchange Earnings	FEE	Positive

7.	Government spending	GOVTSPEND	Positive
8.	International Tourist Arrivals	INTNLTA	Positive

The regression analysis i.e. Ordinary Least Square (OLS) was applied on the data set for the period 2001-2012. The data set includes seven independent variables and Tourism contribution to GDP as dependent variable. Table 3 exhibits the results of Regression model fitted. Table 2 and 3 also shows the values of Durbin-Watson test i.e. 2.849 which explain thin negative auto correlation.

The ANOVA Values (F) as shown in Table 3 is indicative of the fact that the regression as a whole is significant at 0.01 level. It implies that variation brought into Tourism's contribution to India's GDP by various independent variables is significant. This evidence of significant variation in GDP identifies the contribution made by important Tourism factors towards India's economic growth.

The coefficient of Correlation (R) of Model 3 is 0.999 as shown in Table 2 explains that there exist very high correlation between Tourism contribution to GDP and factors under investigation. Similarly, the value of Coefficient of Determination (R^2 and adjusted $R^{2)}$ under various models indicates high explanatory power of independent variables as a whole. R^2 ranges from 0.998 to 0.999. The value of adjusted R^2 is 0.998 in third model. Thus, around 99.8 % of the variation in Tourism's contribution to GDP is caused by independent variables under the study. This implies that there are very few other factors from Tourism industry which contributes to India's GDP.

The relationship between Tourism's contribution to India's GDP and various independent variables is measured to test the hypothesis. The regression coefficients of factors covered under Model 3 could be visualized from Table 3. This table shows that the P Value of the model is 3.14 e – 08 i.e. 0.00 which is less than 0.01 and significant at 1% level. . Thus, null hypothesis is rejected and alternate hypothesis is accepted. It means there is significant relationship between Tourism's contribution to GDP and three independent factors i.e. Internal Consumption, Foreign Exchange Earnings and Foreign Tourist Arrivals and all these factors have positive relationship with Tourism's GDP. The partial regression coefficients for Internal Consumption and Foreign Tourist Arrivals are significant at 1% level of significance and Foreign Exchange Earnings at 5%.

CONCLUSION

Tourism is the world's oldest, largest and fastest growing industry today. Increasing Foreign Tourist Arrivals in India is also a fact. Tourism sector has been a significant factor in the economy of India. Some of the researchers have identified the factors of Tourism contributing towards India's economic growth. This study brought out the findings that the relationship between Tourism's contribution to GDP and Visitors Export, Internal Consumption, Foreign Exchange Earnings, Foreign Tourist Arrivals, Capital Investment and Govt. Expenditure are strong and positive but the relationship between Tourism's contribution to GDP and Tourism contribution to Employment is found to be negative. The explanatory power of the model as a whole is of very high level and only three out of seven independent factors i.e. Internal Consumption, Foreign Exchange Earnings and Foreign Tourist Arrivals proved as significant influencer of Tourism on growth of Indian Economy whereas other variables i.e. Visitors Export, Tourism's contribution to Employment, Capital Investment and Govt. Expenditure are insignificant in the present study.

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