ABSTRACT

In last few decades, travel and tourism has become an indispensable economic activity world over. This sector has the potential to strengthen the socio-cultural and political economy of a nation. It has the capability to disseminate the peace message across the globe. The tourism industry is well-known for job creation, foreign exchange earnings, revenue and income generations, and developing socio-economic infrastructure. The industry is critical for unemployment reduction, poverty alleviation, inequality reduction, and bringing up balanced regional growth. It is instrumental for achieving inclusive and sustainable growth in a country. Thus, tourism is extensively relevant for developing country like India. India is a country of tourists’ paradise with bountiful natural surroundings, the architectural masterpieces, the magnificent dance & music, superb paintings, rich traditions and languages. Its contribution to GDP in India was INR 8,039.40 billion (6.3% of GDP) in 2015; contribution to employment was 37,315 thousand jobs (8.7% of total employment) in 2015; contribution to foreign exchange reserves was US $ 21,071 million in 2015; the total domestic tourist visits in India was 1431.97 million in 2015; and the total foreign tourist visits in India was 8.03 million in 2015. It has been the consensus that the socio-economic prosperity of India depends on tourist visits. Thus, tourism in India is at the centre of the policy circle in recent years.

The existing literature reveals that the need for assessing the socio-economic impact of tourism was felt as the number of tourists arrival increased after the decade of 1980s (Carr, 2011). There are few studies empirically examining the socio-economic impacts of tourism (Fleming & Toepper, 1990; Chattopadhyay, 1995; Borkakoty & Barua, 1998; Ashley, 2000; Simpson, 2008; Rastegar, 2010; Gupta & Raina, 2008; Kakkar & Sapna, 2012; Das, 2012-13; Khan, 2013; Kaur & Sharma, 2015) and found positive impacts of tourism.

Regarding the approaches of socio-economic impact studies there are two strands of opinions – first, top-down or macro level approach; and second, bottom-up or micro level approach (ESCAP, 2007). The macro level approach studies aggregate impacts of tourism on the macroeconomic growth of a country or region by using secondary data in aggregate sense and employing econometric techniques such as time series regress etc. The micro level approach studies local level / project level impacts of tourism using primary / filed data and employs micro-econometric techniques such as logit/probit regression etc. There are only a few studies examining the socio-economic impacts of tourism in India from the macroeconomic perspective. We have found certain gaps in the existing literature. These are:
(i) Although economic variables have been chosen suitably, but social variables linked to economic variables (which are a must in socio-economic studies) are mostly missing – resulted in identification bias in results; (ii) The socio-economic variables are chosen such that relevant variables are missing in some cases – resulted in omitted variable bias in results; (iii) The time horizon taken into consideration is relatively short – resulted in small sample bias in results; and (iv) The use of regression model is mostly linear and deterministic which failed to capture the inherent dynamism – resulted in model specification bias in results.

In all these respects, our study is an improvement because it examines the socio-economic impacts of tourism in India in a macroeconomic perspective giving a fillip to the existing literature; identifies socio-economic variables in relation to each other thereby avoiding identification bias; includes relevant socio-economic variables thereby avoiding the omitted variable bias; and carried out over a sample period of 26 years (1990-2015) to cover up the post-reform period till date and employs dynamic macro-econometric models such as Panel Analysis and FMOLS thereby avoiding small sample bias as well as model specification bias.

The primary objectives of the study are: (i) to examine the trend and progress of tourism industry in India; (ii) to evaluate the role of tourism in the growth of Indian States/UTs; (iii) to assess the socio-economic impacts of tourism on macroeconomic growth of India; and (iv) to come out with appropriate policy suggestions for growth of tourism in India. In line with these objectives, the hypotheses of the study are: (i) tourism industry in India exhibits a significantly rising trend over years; (ii) tourism in Indian States/UTs significantly leads to higher level of economic growth; and (iii) tourism in India exerts significantly positive socio-economic impacts.

In order to comply with these objectives and examine the formulated hypotheses, the study follows the macroeconomic approach to explore the socio-economic impacts of tourism in India. The sample period spans from 1990 to 2015 so as to examine the impact of tourism in the post-reform period. The indicators of tourism industry are Domestic Tourist Visits, Foreign Tourist Visits, Foreign Exchange Earnings, Total Contribution of Travel & Tourism on GDP, Total Contribution of Travel & Tourism on Employment, International Tourist Spending, Domestic Expenditure on Travel & Tourism, Government Expenditure on Travel & Tourism, and Capital Investment by Industries Directly Related to Travel & Tourism. The indicator of macroeconomic growth of India is the Gross Domestic Product at constant prices of 2011 in Purchasing Power Parity terms. The indicator of growth of Indian States/UTs is the Gross State Domestic Product at constant prices of 2004-05. The time series data on these
variables are collected from various sources including India Tourism Statistics publications of Ministry of Tourism, Government of India; CMIE database on States of India; World Travel & Tourism Council; World Development Indicators of World Bank; and database of Indiastat.com.

The methodology of the study has been specified on the basis of the objectives & hypotheses formulated. As per the objective-1, the variables have been plotted on the graph and bet fit trend curve is estimated by linear/non-linear least square curve fitting method, and the power of the fit is supported by R-squared. As per the objective-2, twenty four (24) India States/UTs have been selected on the basis of the availability of balanced time series data and on the basis of the importance of tourism in those regions. These States/UTs are: Andaman & Nicobar Islands, Arunachal Pradesh, Assam, Chandigarh, Delhi, Goa, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Karnataka, Kerala, Maharashtra, Manipur, Meghalaya, Nagaland, Odisha, Puducherry, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura and West Bengal. The time series panel data analysis method is used to see whether tourism in Indian States/UTs stimulates their growth. The tourism sector indicators at the state/UT level are domestic & foreign tourist visits to India. This panel data analysis is performed in 4 steps: (i) the variables are tested for stationarity (whether variable are time invariant); (ii) the variables are tested for the long-run equilibrium relationship between them; (iii) estimated whether tourism causes growth of Indian States/UTs; and (iv) estimated the elasticity (responsiveness) of tourism sector to growth of Indian States/UTs. As per objective-3, the socio-economic impact of tourism on macroeconomic growth of India is examined in a dynamic framework. The estimation method consists of 3 steps: (i) the variables are tested for stationarity (whether variable are time invariant); (ii) the variables are tested for the long-run equilibrium relationship between them; and (iii) estimated the socio-economic impact of tourism by cointegrating regression method.

The findings of the study in connection to the first objective are as follows. The domestic tourist arrival to States/UTs of India is showing a rising exponential trend over the years; the foreign tourist arrival to India is showing a rising exponential trend over the years; international tourist receipts, i.e., foreign exchange earnings is showing a rising exponential trend over the years; the share of India in world tourism receipts is showing a rising exponential trend over the years; the share of India in Asia-Pacific tourism receipts is showing a rising exponential trend over the years; the total contribution of travel & tourism to GDP is showing a rising linear trend, i.e., steady-state growth over years; the total
contribution of travel & tourism to employment is showing a declining linear trend over years; the total international tourism expenditure due to foreign tourist visits is showing a rising parabolic trend over years; the capital investment in travel and tourism is showing a rising parabolic trend over years; domestic expenditure on travel and tourism is showing a rising third degree polynomial trend over years; the government individual expenditure (by the central govt.) on travel and tourism is showing a rising exponential trend over years; and the government collective spending (by centre, state & local level govt.) on travel and tourism is showing a rising linear trend.

The findings of the study in connection to the second objective are as follows. The tourism sector in Indian States/UTs has a long-run equilibrium relationship with their economic growths; in the long-run domestic and foreign tourist arrivals representing tourism sector expansion leads to economic growth of Indian States/UTs (tourism-led growth hypothesis); there is no evidence of tourism sector causes economic growth of Indian States/UTs in the short-run; in the short-run economic growth leads to expansion of tourism sector in terms of rise in domestic and foreign tourist arrivals to Indian States/UTs (growth-led tourism hypothesis); and there is long-run positive relationship between tourism sector expansion and economic growth in Indian States/UTs.

The findings of the study in connection to the third objective are as follows. There is the evidence of long-run equilibrium relationship between the tourism industry and economic growth in India; there is significant and positive long-run impact of tourism on economic growth in India; the total contribution of travel and tourism to GDP has positive impact on economic growth in India; the total contribution of travel and tourism to employment has positive impact on economic growth in India; the foreign exchange earnings has positive impact on economic growth in India; the international tourist spending has positive impact on economic growth in India; the domestic expenditure on travel and tourism has positive impact on economic growth in India; and the capital investments by all industries directly related to travel and tourism has positive impact on economic growth in India.

The implications of the findings with respect to the first objective are as follows. The findings imply the increasing significance of tourism industry in achieving the long-run goal of inclusive sustainable growth of India. It is the tourism industry which can be catalysts to long-run macroeconomic growth of India through increased contribution to GDP, job creation, foreign exchange reserves, and infrastructure development. All these would certainly contribute to poverty alleviation, inequality reduction, balanced regional
development, and ultimately to enhanced quality of life. This calls for prudent attention of the policy circle.

The implications of the findings with respect to the second objective are as follows. The findings indicate the possibility of tourism-led economic growth in Indian States/UTs in the long-run. Tourism industry can be considered as an engine of long-run economic growth of Indian States/UTs. It necessitates policy focus of Indian States/UTs on tourism sector. In the short-run, the respective governments should emphasize on achieving robust economic growth in their States/UTs through appropriate development policies. In the long-run this would be translated into tourism driven economic growth.

The implications of the findings with respect to the third objective are as follows. The findings imply that the Indian tourism has got strong potential to determine the socio-economic development of the nation in the long-run. This is contingent upon the expansion of tourism industry through well designed plans, policies, schemes and projects in the country.

Therefore, our study suggested the followings: inbound tourism should be encouraged at the global level by informing the world about the key features of different forms of tourism in India; domestic tourism should be promoted through tourism promotional programmes within the country; the information about the significance and utility of different forms of tourism should be disseminated in the form of guide books, hand books, featured folders, posters, etc.; the rich Indian culture should be publicized may be in the specially designed websites such as incredible India, and may be in the form of Indian traditional arts and crafts; tourism promoting events such as cultural festivals, exhibitions, Melas, dance festivals, etc. be organised in regular intervals in different parts of India; the man-made attractions such as amusement parks, adventure sports, and nightlife should also be strengthened for the expansion of tourism sector; the wildlife sanctuaries and important monuments should be protected, preserved and conversed effectively so as to attract tourists to these places; the general cleanliness and sanitation level of the country should be improved may be through ‘Clean India’ like campaigns; the government should provide the incentives in the form of basic infrastructural facilities such as roads, railways, and air ports, etc. for promoting tourists arrivals to various tourist spots in India; it is essential that accommodation and hospitality sector should provide sufficiently accessible, affordable and quality services to both domestic and foreign tourists visiting India; India is having a multidimensional form of tourism industry comprising cultural tourism, heritage tourism, wildlife tourism, rural tourism, medical tourism, eco tourism, sports tourism, beach resort tourism, etc. Thus, an efficient
marketing and sales approach is needed to popularize India tourism in the global level; the service facilities such as education, medical, banking and insurance, information technology, etc. need to be available in all corner of the country so as to attract tourists to all localities for their purposes; skill formation at the local level is highly essential to deal with the tourists and tourism products; Entrepreneurial incentives should be given by the Central and State Governments to promote tourism products; it is necessary that the Central and State Governments should work together with the private sector and voluntary organisations for sustainable growth of tourism in India; the regulatory bodies should strengthen the monitoring process so as to ensure the provision of top-quality customer services by the travel and tourism sector; both monetary and fiscal incentives are required to increase capital investments in travel and tourism industry; maintaining socio-political and macroeconomic stability is a pre-condition for the expansion of tourism industry; the government should ensure the safety and security of both foreign and domestic tourists visiting various tourist spots/purposes in India; and it is essential that the begging, cheating, corruption, terrorism, and other similar unpleasing and embarrassing happenings be absolutely wiped out from the country for the real growth of tourism industry in India.