CHAPTER I

INTRODUCTION
Travel is the only way to dispel ignorance, prejudices and myths - all potential ingredients of hostility and the basis of misunderstandings. Through the ages, travellers to isolated and uncharted destinations have helped bring about understanding and tolerance, very often through having discovered similarities between what were hitherto thought to be diverse peoples. Tourism remains a vital force for world peace and a moral and intellectual basis for international understanding and interdependence. The movements of people, whatever the motivation, is one of the ideal ways of furthering mutual knowledge and creating a climate propitious to reciprocal understanding and respect. According to the Secretary General, World Tourism Organisation, "though these contacts, a thread undoubtedly fragile at present is being spun, gradually to weave a complex network of interdependent communication, which will gradually grow stronger as people choose to travel from their place of residence both within the countries and outside".

Tourism by its very nature is a volatile industry and dependent on changes in the prevailing economic climate of the tourist generating countries. Tourism is a highly developed economic activity, besides it being intensively employment oriented. Also it brings about distribution of wealth as there is movement of wealth from developed areas
to underdeveloped areas leading to balanced economy in the country. It also is a great nation builder. It brings the people of diverse background together and creates a feeling of national oneness among its people. It provides jobs to the unemployed and restless youth of the country in the various segments of the industry, such as travel, hotel keeping, airlines, handicrafts and many other allied jobs which generate from this particular activity. The development of tourism in many countries of the world has been a major factor in building international understanding and, at the same time, in providing a significant source of income for those nations which have encouraged and fostered it.

But there are still many nations where, for one reason or the other, tourism is not fully developed. The aim of my work is to fill part of the need for advice on what should be done to derive greater returns from this source. Tourists bring wealth into a country—wealth in the form of goodwill and understanding, wealth in the form of foreign exchange, vitally needed for international trade, wealth in the form of financing for further tourist and other economic development activities.

Tourism has become a global phenomenon in the last three decades. Better and faster means of communications have resulted in a massive movement of people throughout the world drawing them closer through experiencing and appreciating one
another's culture and life style. The mass movement of people today all over the world has given rise to a highly sophisticated, multi-disciplinary industry - Tourism - to develop and promote tourist activities, to service the tourist facilities so as to ensure visitors' satisfaction and thus generate more travel.

The spread of education giving rise to natural curiosity to travel and discover place for oneself, motivated as it is by publicity and promotion of tourist places by govs., and others in travel business and has also created a new climate for multipurpose travel. Tourists of all varieties and shades, therefore, travel not only for recreation, sports, adventure, health-seeking, but combine their holidays, sometimes, with business and also to satisfy their intellectual curiosity to visit ancient monuments and places of historical or religious importance.

Man's search for food and shelter and his curiosity for thing around gave birth to travel. Travel led to tourism. Tourism is the activity of tourists and those who deal with them. As tourism promotes exchange of ideas and views and facilitates interaction of people and their culture, it can be a potent instrument for achieving national integration, better international understanding and ultimately peaceful co-existence for the people of the world. It has the flexibility of adjustments to situations which few industries possess.
Tourism in India, which had only a 0.3% share in the world market, had to be developed as a movement, in which the govt., the private sector and the people had all to take part.

It is accepted all round that India has rich potential as a tourist destination. Again it is also accepted that the potential of India as a tourist destination is yet to be fully realised. So far, we have promoted India as a cultural destination.

Now it is a time for us to give a different and new slant to our image overseas. In addition to the accepted position of a country with rich culture, religious and historical attractions, a well planned marketing programme needs to be launched to highlight other attractions like beach holidays, wild life sanctuaries and national parks, trekking and mountaineering, various outdoor sports and the wide range of conference, convention and exhibition facilities. The promotion of each facet has to be carefully planned in the different markets keeping in mind the profile of the visitors from that area and the potential for promoting any of the advantage or special interest attractions.

We know that funds for promoting Indian tourism abroad are too inadequate. There is a strong case for allocating more funds for attracting more tourist to India. While making a case for enhancing the allocation of funds it is conceded
that funds by itself will not improve matters. The Tourist
departments would have to revamp its promotional strategy
and give it a new thrust in the highly competitive
international market. There should be a direct consumer
advertising abroad through India such as TV and mass circulation
journals.

Of course, the promotional strategy will differ from
region to region, it may be desirable to lay down a few
general guidelines for all the agencies involved in this
task. This would naturally require closer liaison with other
Indian agencies operating in overseas market.

ECONOMIC DEVELOPMENT

Benefits that can accrue

International tourism is perceived by the govts. of
many less developing countries as an attractive means of
economic development for a variety of reasons, including the
following:

1. It can aid economic development by earning foreign
exchange and reducing balance of payment difficulties. It
is a sector which is subject to few trading restrictions,
unlike many commodities/products exported by the less developed
countries.

2. It is a growth sector with relatively high price and
income elasticities of demand (unlike most primary products).

3. It represents a means of raising the level of employment.

4. It can be an important agent in diversifying the structure of the host country's economy, particularly in the case of those less developed countries which are dependent on one or two primary products.

5. It can balance out the regional disparities in income and employment since areas suitable for tourism development are often situated far from the main centres of economic activity.

6. Higher levels of intermediate demand may result from tourists expenditure both from the provision of accommodation and other services within the host country and at a step removed, from the locally supplied inputs required by hotels, food producers, etc.

7. It provides taxation revenue for governments.

8. It can serve to promote a better image abroad which, in time, may lead to increased foreign investment.
A FRAMEWORK FOR ASSESSING THE ECONOMIC IMPACT OF

TOURISM DEVELOPMENT

Development of and Tourist Expenditure on

Spectrum of Development

attractions transport accommodation supporting infrastructure facilities

hotels motels caravans holiday homes

1st class 2nd class

gives rise to

Benefits
overseas earnings employment regional development multiplier effect tax revenues

Costs
investment "leakages"

- imported goods and services
- remittances-profits
- wages
- promotion
- demonstration effect
- inter-sectoral competition
- inflation

accruing to borne by

developers, operators, employees
non tourism oriented residents and enterprises
public authorities

1-local, r-regional, n-national, i-international
FOREIGN EXCHANGE

Tourism earns foreign exchange

Virtually all less developed countries suffer periodic, sometimes chronic, shortages of foreign exchange which constrains their capacity to purchase goods and services for investment and other needs, commodity trade, which is the principal foreign exchange earner for most less developed countries has not provided a revenue growth to match the increase in the imports bill. Import substitution and local processing can provide a revenue growth to match the increase in the imports bill. Import substitution and local processing can provide a means of saving or earning foreign exchange but many less developing countries run into the problem of limited domestic market or restricted access to foreign market. In this context, tourism's advocates observe it as a prima facie sector for encouragement by the govt. of less developed countries. Demand (and expenditure) is growing faster than global inflation rates, there are a few trade barriers, and foreign exchange is earned more conveniently than from manufactured goods since the customer brings himself to the point of sale at his own expense and takes immediate delivery of the services.

There are, however, drawbacks. Tourism receipts data in gross terms, from these totals must be subtracted the costs of a number of items (leakages) required to service tourism.
1. The import cost of goods and services consumed by non-resident visitors. This includes not only direct imports but also the import component of goods produced in the tourist receiving country for sale to the tourist.

2. The import cost of capital goods for tourist amenities such as hotel, vehicles and infrastructure.

3. Foreign exchange payments to foreign factors production interest, rental and profit from foreign capital invested in the tourism sector, commission to foreign travel organisers such as tour operators and travel agents and the repatriated portion of the wages paid to foreign specialists generally in the hotel sector employed in less developing countries.

4. Expenditure for services abroad, i.e., promotion and publicity, personnel training programmes.

These represent the foreign exchange cost of establishing and operating a tourism sector, but before a country's tourism account can be calculated, consideration must be paid to any tourism investments held by the country overseas and expenditure by its own residents on tourism abroad.

The extent of foreign exchange cost of the tourism sector varies widely between the different types of less developing countries. The leakages depend on the particular pattern of tourist demand and the host country's ability to produce the capital, intermediate and consumer goods demanded. The limited volume high spending tourist generally requires a standard
which the less developing countries are unable to meet with locally produced goods. The simpler the tourist's requirements the more likely is the less developing countries. The host country may be able to produce them locally and reduce the import leakage of foreign exchange.

The structure of ownership and control in the industry also affect leakages. Transfer pricing can also serve to reduce the net foreign exchange earnings from international tourism.

Finally, the governments themselves may affect their countries tourism earnings. In order to attract investors in tourism industry, govs. may grant concessions in the form of exemption from, or rebates of, customs duties and/or profits taxes, subsidies such as low interest loans and the provision of public utility services at less than full cost. It should be noted that foreign exchange leakage does not occur just once at the time of the purchase of the specific products. It happens at each successive round of business transactions, as the multiplier works its way through the economic system. There are also a number of complex issues leading to increased leakages.

Two instances: first, the "demonstration" effect results in increased demand from local residents for imported goods, and secondly, the increased demand from local residents (brought about by the tourist's expenditure) may not be capable
of being fully satisfied from domestic production resulting in increased imports to fill the gap.

Gradual realisation on the part of less developing countries administrations that these types of foreign exchange leakage are occurring has led to a questioning of tourism's role in aiding the economic development of less developed countries. There are two key questions which the less developed countries need to resolve.

1. Does investment in tourism produce greater net benefits than if it were to be put into alternative sector?

2. Which form of tourism development will produce the greater net benefits, low volume, high per capita gross receipts but also high leakages, or large volume, or low per capita gross receipts and low leakages.

MEASURING THE IMPORT CONTENT OF TOURISM EARNINGS

To answer these questions, low developing countries must measure the import component of their gross tourism earnings and the full foreign exchange cost of the currency earned by the tourism sector. Both types of analysis are complex and, consequently, only in the case of a few less developing countries has a thorough attempt been made to prepare full examinations. Further the assessment of the full cost in foreign exchange of the currency earned needs to cover a considerable period of time. Consequently, these studies
which have been made tend to concentrate on the import component of gross tourism earnings.

**COST BENEFIT ANALYSIS**

Where there is active or potential competition for a country's resources and factors, the best framework currently feasible for evaluating the income effects of tourism is probably the cost benefit approach. In CBA, the services of factors of production are valued at their opportunity cost (i.e. the marginal value product of their next best use). This technique enables an answer to be provided to the question whether tourism will generate more foreign exchange, more employment, higher earnings to factors of production or higher revenue, than other sectors of the economy.

**NET PRESENT VALUE OR INTERNAL SOCIAL RATE OF RETURN**

Whether or not tourism creates greater net benefits to society than, other forms of development is a function of the nature of the country's economy and the practicable, alternative forms of developments. Of course a country may often choose to promote several forms of development, even though one or more of these may offer relatively lower net benefits, in order to minimise dependence on any one sector.

The net benefits to the citizens of a country from any project can be measured in two ways:
(1) The NPV (Net Present Value) to society, i.e., the current value of the estimated future benefits to the country.

(ii) The social yield or internal social rate of return (IRR), i.e., the average annual rate at which the benefits accrue to society.

A positive NPV is insufficient condition alone for project approval. This is because, owing to the possibility of failure to identify the best alternative use of resources, the NPV of some projects may be overstated. For this reason and the fact that the NPV provides no indication of how close a project is to the margin of acceptability, the more appropriate approach to the evaluation of tourism projects is the internal social rate of return. In general, projects offering social yields in excess of the target yield (which in most countries is likely to be between 10% and 12%) are eligible for selection. For example, destinations which suffer from a marked seasonality of their tourist flows can use this approach to determine, whether resources would be better employed in providing for, and encouraging, additional tourism in the peak providing for, or in developing and promoting the country as an all-year-round holiday destination. In other words, will the net benefits to be gained by concentrating the available resources to serve extra peak season tourist outweigh those to be obtained from increasing hotel occupancy rates in the shoulder and low seasons.
The social cost benefit analysis approach itself has its critics, who argue that it is not an application of a scientific theory where predictions can be checked against actual performance, but a system whose validity depends upon the appropriateness of its assumption rather than the quality of its predictions. While certain reservations may be made about the value of the method in general, its use for the appraisal of tourism projects presents particular problems. There are significant external effects in both production and consumption and that considerable economies of scale can arise where the successful running of the industry depends on high fixed costs in specialist services and infrastructure. The value judgements which have to be made appear to permit methods to be easily manipulated to produce the desired results.

EMPLOYMENT

A LABOUR INTENSIVE INDUSTRY

Faced with a high level of unemployment in most less developed countries, the governments are concerned to establish activities that will provide regular, productive jobs, one of the main arguments advocating the establishment, or expansion of a tourism sector in less developed countries is that tourism, as a service activity, creates a high level of job opportunities. The sector, it is argued, is labour intensive and the principal type required is semi-skilled and unskilled - the very type in abundant supply in most low developing countries.
EMPLOYMENT CREATED BY TOURISM

Tourism provides both direct and indirect (secondary) employment. Direct employment (i.e. jobs resulting from, and dependent on, the sector) includes accommodation, shops, restaurants, bars, transport operators and government administration of tourism. Secondary employment (i.e. jobs in sector supplying the tourism sector, or the activities benefiting from expenditure generated by it) embraces the construction, agriculture and fishing, manufacturing and processing sectors.

The volume of secondary or indirect employment generated depends on the degree of linkage between the concerns meeting final tourist demand and the producers. The higher the degree of integration and diversification in the economy, the higher the amount of indirect employment generated, conversely in the under developed regions of less developed countries, the volume is low.

IMPACT OF TOURIST EXPENDITURE

Effect on National Income

The factor of "Turnover" or "Multiplier": How can we measure the economic impact of the money that tourists spends? Typically, this is done by simply citing estimated expenditures by tourists and letting it go at that. However, everyone knows that the money spent by tourists does not stop moving after the tourist spends it. Instead, it circulates through
the economy. It changes hands a number of times, and is spent and respent. The more times it changes hands and the more times it is spent, the greater the economic impact on the economy. This "turnover" or "multiplier" effect of the money that tourists spend varies from economy to economy, but it can be measured or at least approximated.

A study conducted in the late seventies by the National Council of Applied Economic Research (NCAER) confirms that tourism has a high socio-economic impact in the areas in which it operates. In Gulmarg, for example, which was the focal point of the NCAER study, it was estimated that the vacation expenditure of the pleasure seekers who trooped up the slopes to this snowbound mountain resort, had a multiplier effect of 3.5 on local incomes.

Another study made by the Indian Institute of Public Opinion in 1978-79 using a matrix of 60 sectors collected from the Planning Commission's input-output tables has, however, estimated the multiplier of a tourism, calculated by linking the hotel and restaurant sector expenditure with that of the travel as well as shopping sector, at 2.5.

The high multiplier effect on local incomes can be directly attributed to the fact that tourism involves several rounds of spending within a local community without substantial leakages through savings or high import content which in India is unlikely to go beyond 15%.
The beneficial multiplier effect of tourism in tourist receiving localities is far reaching in India. There is hardly any economic activity that is left untouched and that has not received a fillip in a tourist receiving area. The use of multiplier analysis for small and less developed countries has been under criticism because it assumes a widespread unemployment of resources and, therefore, a perfectly elastic supply of goods and services. For economies operating without spare resources, multiplier analysis can only legitimately ignore price changes if the increase in the components of demand represent an insignificant proportion of demand disaggregated by the relevant tourism sectors of the economy. This assumption is unlikely to be true for small economies. It is being argued that, even if sufficient resources capacity exists, many of the factors are likely to have other uses, i.e. their opportunity cost will be greater than zero. Thus, the overriding failing of tourism multipliers is that they do not as many have been led to believe, measure the actual, or potential benefit which the expansion of tourism provides over the longer run. In order to assess the real worth of tourism it is essential to make some assessment of the real cost to society of devoting resources to tourism and a comparison with the benefits which would accrue if these resources were allocated to other uses.
CONCLUSION

Tourism in the world today is dependent on social, economic, political, environmental, and technological factors. Although those in the tourism industry are convinced of the important role that the industry plays in the world today, tourism is nevertheless misunderstood by politicians, economists, sociologists and just about every element of the decision-making power structure.

Countries which have reached developed or newly industrialized stages today represent approximately 25% to 30% of the world, yet represent 85% to 90% of the world's economy and travel market. Forecasters have estimated that the percentage of countries to reach developed or newly industrialized status by the year 2000 will increase to 50% to 60%, thus providing a scenario where the travel and tourism industry may experience a doubling of the market within a short span of 13 years.

The World Tourism Organisation (WTO), in its January 1985 Report on the world-wide status of travel and tourism, stated that during 1984, the total number of trips taken for tourist purposes (i.e. all non-migratory trips for business, pleasure and personal reasons) were estimated to be between $3.5 \times 10^9$ to $4.0 \times 10^9$ trips. Domestic tourism according to WTO, accounted for over 80% of these trips. World-wide reliable data on domestic tourism are difficult to obtain. However,
Europe represents the largest world-wide domestic market, which totals 88% of its overall tourist arrivals of $1.7 \times 10^9$. In North America, 90% of its $400 \times 10^6$ arrivals at tourism destinations, were represented by the domestic tourism market. While reliable data are not available for the East Asia and Pacific Region, there seems little doubt that they would fall into third place in the world's domestic tourism market place.

Total international trips in 1984 for holidays, leisure business and other travel are estimated at $300 \times 10^6$, which is an increase of slightly over 2% in comparison with 1983 receipts. Receipts from international travel in 1984 were estimated at US dollar $100 \times 10^9$ representing an increase of almost 4% over the previous year, an excellent performance for the tourism industry, even taking into account that fluctuations in the exchange rate of the overvalued US dollars have inflated this increase. Spending for international travel has stabilized at about 5% of the total value of international trade. The upswing in tourist activities in 1984 was basically related to structural changes in industrialized countries caused by modifications in age-bracket demographics, increased purchasing power, re-structuring of work time, and related, social and economic factors.

The travel markets of the developed countries, particularly those of Europe and North America, are reaching their saturation level. The Asian Pacific region still has substantial growth
potential, possibly the highest of all regions of the world. Several factors seem to support this contention.

(1) Tourism patterns in the Asian Pacific region in 1984 reflected the vigour and purchasing power of the developed and newly industrialized countries, particularly Japan, and the four little tigers of South Korea, Taiwan, Hong Kong and Singapore, Japan of course, far out distances its closest competitors - as an economic power at least 15-fold. Taiwan, Hong Kong and Singapore have built their success on productivity, profitability and high technology progress, which leaves Korea in the outstanding position of emerging with Japan as truly global economic powers, capable of making their presence felt in Asia and throughout the world.

(2) The East Asia and Pacific area is in a very strong position world-wide, following Europe and North America in terms of visitors arrivals and total expenditure, whether one considers the international or domestic market place.

(3) Furthermore, WTO estimates concerning the number of employees enjoying leave with pay, indicate that the East Asia and Pacific region covers between $88 \times 10^6$ to $95 \times 10^6$ employees, which represents vacation coverage of an additional $260 \times 10^6$ to $325 \times 10^6$ beneficiaries (spouses, children). The WTO has rated the Asian Pacific region as having the highest level of potential for positive impacts on tourism demand, whereas Europe and North America are rated as developed tourism
market places which should only expect slight increases in tourism demand.

(4) When compared to other regions such as Africa, Latin America and the Caribbean, South Asia or the Middle East, which also has potential, the WTO's predictions reflect strong growth in the Asian Pacific region.

The above factors and trends are related to demand. It is also important to look at trends in terms of supply, i.e. the mix of accommodation, transport, travel intermediaries distribution channels, attractions and related supply requirements needed to meet the needs of the travellers.
Worldwide Tourism Volume and Expenditures

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<tr>
<td>Global Travel Volume (millions)</td>
<td>2,429.0</td>
<td>2,613.0</td>
<td>2,892.5</td>
<td>3,636.4</td>
<td>3.722.5</td>
<td>-2.4</td>
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<td>Domestic arrivals</td>
<td>2,150.0</td>
<td>2,323.0</td>
<td>2,605.0</td>
<td>3,342.5</td>
<td>3,422.5</td>
<td>-2.4</td>
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<td>International arrivals</td>
<td>280.1</td>
<td>287.8</td>
<td>287.5</td>
<td>283.9</td>
<td>300.0</td>
<td>-2.1</td>
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<td>Global Tourism Receipts</td>
<td></td>
<td></td>
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<td>($U.S. billions)</td>
<td>775.0</td>
<td>951.0</td>
<td>983.0</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
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<tr>
<td>Domestic tourism receipts</td>
<td>645.0</td>
<td>813.0</td>
<td>850.0</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
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<tr>
<td>International tourism receipts (excluding international fare receipts)</td>
<td>95.3</td>
<td>97.7</td>
<td>94.6</td>
<td>96.2</td>
<td>100.0</td>
<td>-4.0</td>
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¹Revised
²Preliminary estimates

Note: Because of definitional changes for domestic arrivals in 1983, statistics for 1983 and 1984 cannot be compared meaningfully with prior years.

Source: World Tourism Organization

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World Arrivals

[Graph showing world arrivals by continent from 1981 to 1984]