CHAPTER-1

TOURISM, TOURISM EXPENDITURE AND TOURISM IMPACTS

(Scholar with Foreign Tourists)
1.0 Introduction:

Tourism is an ever expanding industry with vast growth potential and has, therefore, become one of the pivotal concerns of the international community. The principal composition of tourism incorporates man, space and time as its process. As such, it has far-reaching significance and implications of a socio-economic nature alongside the environmental ones. In reality tourism has emerged as a most instrumental phenomenon in the economic and social development of the global society. Tourism ranked high in sphere of its role in accelerating the economic development of a country. It has been contributing to the economy in terms of largest employers and services exporting sector and thus making a significant contribution to the balance of payments. There are few economic sectors which generate as much added value, employment and hard currency as much as tourism. ‘Tourism ranked higher than equipments, clothing, textiles, iron and steel and was marginally below automobiles and crude petroleum products. Tourism is called the industry of the future that has been making revolutionary impact on the economic scenario of the respective countries in particular and the world economy in general. Today, it is estimated to constitute a higher proportion of the value of world’s exports than all other sectors except crude and petroleum products, and also the World’s largest creator of jobs’ (Bezbarua, 1999). It is amongst the top five export sectors for 83 percent of countries and a leading source of foreign exchange for at least 33 percent of the developing countries (Narayan, 2005). In fact, tourism activity generates substantial amount in personal spending, business receipts, employment, income and government revenue. However, such benefits are seldom recognized as they are spread across different sectors and often difficult to identify. A large part of tourism benefits take place outside the tourism industry such as transport operators, museums, retail shops etc. thus, it is feared that economic benefits of tourism are often underestimated. In reality, Tourism is a smokeless service industry having considerable contribution to the society. Therefore, it has become one of the crucial concerns for the world community.

Tourism is one of the world’s most important economic activities today and is estimated to contribute in accelerated pace in the future.

Its role in economic development can be recognized from the following few points,
a. The World Travel and Tourism Council (2004) reports that tourism industry contributed 214.7 million jobs up to the year 2003, which accounts 8.1% of the total jobs available worldwide.

b. International tourist arrivals reached to 808 million in the year 2005 and could be able to generate receipts of US $682 billion (GOIMOT, 2007).

c. Every million rupee invested in tourism creates 85 new jobs which as against 13 new jobs in manufacturing sector and 45 in agricultural sector (Sharma, 2007).

d. Global tourism is an industry that is worth well over US$4 trillion when all expenditure, international and domestic, has been taken into account (Hall & Kearsley, 2001).

e. In 2003, the U.S. travel industry directly generated more than 7.2 million jobs with over $158 billion in payroll income for Americans, as well as $94.7 billion tax revenue for federal, state and local governments. (TIA, 2004)

<table>
<thead>
<tr>
<th>Region</th>
<th>2000</th>
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<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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<tbody>
<tr>
<td>WORLD-Arrivals</td>
<td>687</td>
<td>684</td>
<td>703</td>
<td>688.8</td>
<td>762.5</td>
<td>808.0</td>
</tr>
<tr>
<td>% of change</td>
<td>5.4</td>
<td>-0.5</td>
<td>2.7</td>
<td>-1.5</td>
<td>10.7</td>
<td>5.6</td>
</tr>
<tr>
<td>AFRICA-Arrivals</td>
<td>27.4</td>
<td>28.3</td>
<td>29.1</td>
<td>30.6</td>
<td>33.2</td>
<td>36.8</td>
</tr>
<tr>
<td>% of change</td>
<td>4.6</td>
<td>3.3</td>
<td>2.8</td>
<td>3.9</td>
<td>8.2</td>
<td>10.0</td>
</tr>
<tr>
<td>AMERICAS-Arrivals</td>
<td>128</td>
<td>120</td>
<td>115</td>
<td>113.1</td>
<td>125.7</td>
<td>133.6</td>
</tr>
<tr>
<td>% of change</td>
<td>4.7</td>
<td>-6.1</td>
<td>-4.4</td>
<td>-3.1</td>
<td>11.1</td>
<td>6.1</td>
</tr>
<tr>
<td>ASIA &amp; PACIFIC-Arrivals</td>
<td>115</td>
<td>121.1</td>
<td>131</td>
<td>119.6</td>
<td>152.9</td>
<td>156.7</td>
</tr>
<tr>
<td>% of change</td>
<td>12.4</td>
<td>5.0</td>
<td>8.4</td>
<td>-8.8</td>
<td>27.8</td>
<td>7.8</td>
</tr>
<tr>
<td>EUROPE-Arrivals</td>
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<td>400</td>
<td>395.9</td>
<td>415.2</td>
<td>441.6</td>
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<tr>
<td>% of change</td>
<td>3.2</td>
<td>-0.5</td>
<td>2.3</td>
<td>-0.6</td>
<td>4.9</td>
<td>4.0</td>
</tr>
<tr>
<td>MIDDLE EAST-Arrivals</td>
<td>24.0</td>
<td>23.6</td>
<td>27.6</td>
<td>29.6</td>
<td>35.6</td>
<td>39.7</td>
</tr>
<tr>
<td>% of change</td>
<td>17.1</td>
<td>-1.7</td>
<td>16.9</td>
<td>3.2</td>
<td>20.5</td>
<td>9.5</td>
</tr>
<tr>
<td>INDIA-Arrivals</td>
<td>2.6</td>
<td>2.5</td>
<td>2.4</td>
<td>2.7</td>
<td>3.4</td>
<td>3.9</td>
</tr>
<tr>
<td>% of change</td>
<td>6.7</td>
<td>-4.2</td>
<td>-6.0</td>
<td>14.3</td>
<td>23.5</td>
<td>13.2</td>
</tr>
<tr>
<td>Share of India</td>
<td>0.39</td>
<td>0.37</td>
<td>0.34</td>
<td>0.39</td>
<td>0.44</td>
<td>0.49</td>
</tr>
</tbody>
</table>

Source: Ministry of Tourism, Govt. of India, 2006

The figures appearing in Table 1.0 show that on an average international tourist arrivals have been increasing over the years. Except the year 2001 and 2003, the number of international tourists' arrival shows a significant rise. However, region wise trend of change has remained uneven throughout the year. As seen from Table 1.0 that the year 2004 and 2005 were remained favourable for world tourism. The percentage increase in the numbers of tourists in all the continents during the year 2004 are found Africa as 8.2%, America 11.1%, Asia and Pacific 27.8%, Europe 4.9% and Middle East 20.5. The flow of international tourists to India during the year
2004 is also satisfactory. It registered an increase of 23.5% over the previous year. The year 2005 was also remained favourable for world tourism. The international tourists' arrival has increased in this year but the rate of increase has failed compared to previous year (year 2004). The percentage increase in the number of tourists' arrival in all the continents in 2005 were Africa 10.0%, America 6.1%, Asia and Pacific 7.8%, Europe 4.0% and Middle East countries 9.5%. Similarly, the increase in the number of international tourist in India in 2005 was 13.2%. It is as against of 23.5% of 2004.

1.1. **World Tourism Organization's 'Tourism 2020 Vision':**

The World Tourism Organization (WTO) has forecasted the trends for future growth of the tourism industry. In its forecasted titled 'Tourism 2020 Vision', it has made long-term assessment of the development of tourism for 20 years of the new millennium. A few of the forecasted developments are highlighted below:

a. International tourists' arrival will cross the figure of 1.56 billion by the year 2020. Out of this forecasted figure of international tourists' arrival worldwide, 1.2 billion arrivals will be of the intra-regional and 0.4 billion long-haul travellers.

![WTO's Tourism 2020 Vision forecasts.](source)

b. The average growth of world tourism will be at 4.1 percent per year and as against to this, the average growth of tourism in the continents of East Asia
and Pacific, South Asia, the Middle East and Africa will be over 5 percent. On the other hand, matured regions like Europe and America are anticipated to show lower than average growth rates.

c. Europe will maintain the highest share of world arrivals, although there will be a decline from 60 per cent in 1995 to 46 per cent in 2020.

d. The top 10 tourist receiving countries would undergo major changes and China would be the country receiving maximum number of international tourists.

e. At the same time the WTO predicts that besides all this tremendous achievements, the tourism industry still would be in infancy even in the year 2020. Only 7% percent of the world population will be travelling in 2020.

1.2. Defining Tourism:

The basic definition of tourism is offered by the United Nations (Rome, 1968) and by the United Nations Commission on Statistics (April, 1968). The definition was revised and updated at the World Tourism Organization (WTO) conference in Ottawa (Canada) in June 1991. The United Nations Statistical Commission adopted the definition at its 27th session in February / March 1993 and as a result, a new set of concepts and definitions on tourism came into existence. The World Tourism Organization (WTO) and United Nations jointly published the definition in 1994. Accordingly, The WTO (1994) has defined the term tourism as ‘The activities of persons traveling to and staying in places outside their usual environment for not more than one consecutive year, for leisure, business and other purposes.” This definition of tourism is accepted by the United Nations Statistical Commission (as cited by Boniface and Cooper, 2001)

However, many academicians have been trying to offer their own definition. Burkart and Medlik (1981) has defined tourism as, ‘the phenomenon arising from temporary visits (stays away from home) outside the normal place of residence for any reason other than furthering an occupation remunerated from within the place visit.

Hunziker and Krapt, (as cited by Singh, 1986) Swiss Professor, has drawn considerable attention by defining the term ‘Tourism’ as ‘The sum of phenomenon and relationship arising from the travel and stay of non-residents, in so far as they do not lead to permanent residence and are not connected with any earning activity’. This
definition has been accepted by the International Association of Scientific Experts on tourism.

Premault (as cited by Negi, 1982) considers tourism as, 'Exploration of all that is unknown in all spheres of human activities and in all aspects of nature'.

Without going into different definitions any further the following salient features of tourism can be seen.

a. **Distance:** It is concerned with the activities outside the normal life and location of the visitor other than furthering an occupation remunerated from the place visited. The person has to travel to a place outside his usual environment. However, the distance to be traveled is not defined in terms of miles. The emphasized is that the person must be out of his usual place of residence. The usual environment of a person is defined as the geographical area in the direct vicinity of his/her home, place of work or study, and other places frequently visited by the person. The distance criterion excludes all trips within the place of residence and its vicinity, including the place of work and education.

b. **Period of stay:** The next criterion is that the person stays at least single night in the place visited but his/her staying doesn’t exceed one consecutive year. A traveller who doesn’t stay at least one night or if his/her stay in the place visited exceeds a year is not a tourist.

c. **Main purpose:** The purposes of the travel should be leisure, pilgrims, business and others but not migration and employment. Thus, the activity criteria exclude all travels for work and migration.

d. **Transportation:** The activity necessitates the travel. Therefore, nearly in every case, some forms of transport are required. Transportation is recognized as comprising another distinct sub-sector including airlines, shipping, rail and car hire, and coaches etc which are seen as being important inputs to the tourism sector. However, it might involve other associated activities like shopping, purchase of handicrafts and gifts, entertainments and a wide range of unplanned activities.

e. **Infrastructure of the destinations:** The destination is required a range of facilities more specially the accommodation which would include not only formal accommodation, hotels, guest houses etc, but also camping sites, rooms in private houses & bed and breakfast type arrangements.

f. **Activities:** It also involves other activities of tourists such as shopping; purchase of souvenirs, handicrafts, clothing, local textiles; meals outside hotels; local
tour and entertainments; sightseeing and miscellaneous purchases like purchase of cigarette, lighters, newspaper and journals, perfumes, cosmetics and skin care products, fishing equipments, sports materials etc.

1.3. **Forms of Tourism:**

Tourism includes several forms and the forms of tourism can be distinguished in relation to a given country. The main forms of tourism are outlined below.

3.1 Domestic tourism: Domestic tourism involves the residents of the given country traveling only within the country. Thus, all the activities in which the overnight visitors originating within the given country engage in become the part of tourism.

1.3.2 Inbound tourism: Inbound tourism involves the non-residents traveling to and within the given country. Thus, all the activities in which the overnight visitors originating from outside the given country engage in become the part of tourism.

1.3.3 Outbound tourism: Outbound tourism involves the residents of the given country traveling to and within another country or countries. Thus all the activities in which the overnight visitors originating within the given country engage in another country become the part of tourism.

1.3.4 Internal tourism: Internal tourism comprises domestic tourism and inbound tourism.

1.3.5 National tourism: National tourism comprises domestic tourism and outbound tourism

1.3.6 International tourism: International tourism consists of inbound tourism and outbound tourism.

1.4. **Definition of Tourist:**

A visitor who spends at least one single night but doesn’t stay more than a consecutive year at the place visited is regarded as tourist. According to Eric Cohen (1988), ‘A tourist is a voluntary temporary traveler. He is traveling in the expectation of pleasure from the novelty and change experienced on a relatively long and non-recurrent round trip’. ‘Dictionnaire Universal’ defines the term tourist as, ‘A person who makes journey for the shake of curiosity, for the fun of traveling, or just to tell others that he has traveled’ (as cited by Bhatia, 1982). Thus, three fundamental
criteria those appear sufficient to distinguish tourist from other traveller. These are as follows:

Firstly, the trip should be to a place other than that of the usual environment which would exclude more or less regular trips between the place in which the person carries out his or her work or study and the place in which he or she has his or her domicile.

Secondly, the stay in the place visited should not last more than 12 consecutive months, beyond which the visitor would become a resident of that place (from the statistical stand point)

Thirdly, the main purpose of the visit should be other than exercise of an activity remunerated from within the place visited, which would exclude migratory movements for work purposes.

On the basis of nationality tourist can be classified as follows:

a. International tourist: A visitor who spends at least 24 hours but his staying doesn’t exceed one year in the visited place is classified as a tourist. Thus, a visitor who spends at least one night in another country is classified as international tourist.

b. Domestic tourist: A domestic tourist is defined as a domestic visitor who stays at least one night in the place visited.

The main purpose of visit of a tourist may be Leisure, recreation, cultural events, health, active sports (non-professional), and other leisure and holiday purposes; business and professional-meeting, mission, incentive travel, other business; and other tourism purposes including studies, health treatment, etc.

1.5. Tourism Expenditure:

The World Tourism Organization (WTO, 1994) has defined the term ‘tourism expenditure’ as ‘the total consumption expenditure made by a visitor or on behalf of a visitor for and during his/her trip and stay at destination’. In other words, the amount of money that out-of-state visitor spends in the destinations is the tourists expenditure (Hawaii Economy, July, 1999). Thus, tourism expenditure means expenditure incurred by the tourists at the destination area.

Tourists usually incur expenditures for various purposes. The different heads of tourists’ expenditures can usually be broken-down into a few common categories (transportation, accommodation, and food and beverages etc.) and uncommon categories (shopping, souvenir and handicrafts buying, sight seeing etc.)
Thus, tourism expenditure can be sub-divided (Vellas and Lionel, 1995) as follows:

a. Direct Tourism Expenditure: This category consists of expenditures incurred by the tourist on goods and services in place of their stay, restaurants, shops and other tourism services. It also includes expenditure on goods exported because of tourism or investment related to tourism in the region.

\[
\text{Table-1.1 : Top ten tourism spending countries in 2003}
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<table>
<thead>
<tr>
<th>Serial No.</th>
<th>Countries</th>
<th>Total tourism expenditure in 2003</th>
<th>Total tourism expenditure in 2002</th>
<th>Percentage of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>United States</td>
<td>$65.1 billion</td>
<td>$66.5 billion</td>
<td>-2.2</td>
</tr>
<tr>
<td>02</td>
<td>Spain</td>
<td>$41.7 billion</td>
<td>$33.8 billion</td>
<td>24.1</td>
</tr>
<tr>
<td>03</td>
<td>France</td>
<td>$36.6 billion</td>
<td>$32.3 billion</td>
<td>13.2</td>
</tr>
<tr>
<td>04</td>
<td>Italy</td>
<td>$31.3 billion</td>
<td>$26.9 billion</td>
<td>16.2</td>
</tr>
<tr>
<td>05</td>
<td>Germany</td>
<td>$23.0 billion</td>
<td>$19.2 billion</td>
<td>20.0</td>
</tr>
<tr>
<td>06</td>
<td>United Kingdom</td>
<td>$19.4 billion</td>
<td>$17.6 billion</td>
<td>10.5</td>
</tr>
<tr>
<td>07</td>
<td>China</td>
<td>$17.4 billion</td>
<td>$20.4 billion</td>
<td>-14.6</td>
</tr>
<tr>
<td>08</td>
<td>Austria</td>
<td>$13.6 billion</td>
<td>$11.2 billion</td>
<td>21.0</td>
</tr>
<tr>
<td>09</td>
<td>Turkey</td>
<td>$13.2 billion</td>
<td>$11.9 billion</td>
<td>10.9</td>
</tr>
<tr>
<td>10</td>
<td>Greece</td>
<td>$10.7 billion</td>
<td>$9.7 billion</td>
<td>09.9</td>
</tr>
</tbody>
</table>

Source: WWD, New York: Dec 13, 2004

b. Indirect Tourism Expenditure: This corresponds to transactions between businesses caused by direct tourism expenditure. For instance, it includes purchases made by hotels from local suppliers and goods bought by suppliers from the wholesalers.

c. Induced Tourism Expenditure: This consists of increased consumption expenditure resulting from the increase of income provided by direct tourism expenditure. For example, hotel boys use their salaries to buy goods and services in the local market.

Based on salient themes, tourists' expenditure can be classified into certain components. A brief discussion is presented in the following section.

1.5.1. Common Expenditure:

Travelling to a place outside the usual place of stay creates demand for some specific products such as transportation, accommodation, food & beverages etc. All the destinations are ostensibly understood to possess these products for supply to the visitors. The exposure of a destination also, to a large extent, depends upon the availability of these products on the spot. Visitors usually have to spend their budgeted money on these items. Therefore, expenditure incurred by the visitors' on the heads transportation, accommodation and food & beverages can be referred as 'Common' expenditure. Sometimes such expenditures are also termed as 'prepaid'
Thus, tourism expenditure can be sub-divided (Vellas and Lionel, 1995) as follows:-

a. Direct Tourism Expenditure: This category consists of expenditures incurred by the tourist on goods and services in place of their stay, restaurants, shops and other tourism services. It also includes expenditure on goods exported because of tourism or investment related to tourism in the region.

<table>
<thead>
<tr>
<th>Serial No.</th>
<th>Countries</th>
<th>Total tourism expenditure in 2003</th>
<th>Total tourism expenditure in 2002</th>
<th>Percentage of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>United States</td>
<td>$65.1 billion</td>
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Travelling to a place outside the usual place of stay creates demand for some specific products such as transportation, accommodation, food & beverages etc. All the destinations are ostensibly understood to possess these products for supply to the visitors. The exposure of a destination also, to a large extent, depends upon the availability of these products on the spot. Visitors usually have to spend their budgeted money on these items. Therefore, expenditure incurred by the visitors' on the heads transportation, accommodation and food & beverages can be referred as 'Common' expenditure. Sometimes such expenditures are also termed as 'prepaid'
expenditures (Mok and Iverson, 2000). Ironically, ‘Common’ expenditure forms that part of the tourist’s total expenditures which is normally incurred by all travellers while on tour to a place of distant. Such types of expenditures are difficult to skip and often seen to be sold as ‘package’ in case of conducted tour. This category of expenditure accounts a considerable amount of the visitors’ total trip budget. According to data released by the University of California, Alaska and Wyoming (WREP, 1994) of every $100 spent by tourist in Arizona in 1984 about $26 was spent for food and beverages, another $26 for lodging, a little more than $23 for transportation. The reports of the Business Times (1996) revealed that foreign tourists spent most of their money on accommodation, food & beverages in 1995. The Annual tourism statistical report released in the Kuala Lumpur in 15, Oct, 1996 by Malaysia Tourism Promotion Board showed that tourist spent 32 percent on accommodation, and 18 percent on food and beverages of their trip budget. Wellner (2002) in his study measured that the single largest category that visitors’ spend on when they were traveling in 5 states (California, Florida, New York, Texas and Illinois) is the food. Consumers on their trip to these 5 states of US spent nearly a quarter of their total travel budget on food in 1998, totaling $117.2 billion while lodging accounted for 20 percent of the total vacation bill in the same year. The travel spending in US in the year of 1998 accounted 42 percent of all domestic travel expenditures. In total, the domestic and international travelers spent $207.3 billion in these top states. Suosheng & Qu (2004) in their study found that Chinese domestic tourist’ expenditures in transportation have the highest proportion of 30.4 percent, on food and beverages 16.8 percent and on lodging 15.8 percent. Visitors’ spent an average $96.03 a day in December in 2004 (Lleave, 2005) in Philippines visitors spent most of their money on accommodation and food. The 1990 Alberta Non-Resident Travel Exist Survey (as cited by Getz et al, 1994) estimated that of the total tourists’ expenditures in Alberta in 1991, 20 percent went to accommodations.

These expenditures are common because they are pre-planned and all tourists have to incur expenditure on these heads.

1.5.2. **Uncommon (or Uncategorized) Expenditure:**

In addition to ‘Common expenditure’, tourists often incur expenditure on various other products. However, tourists have the discretionary power to incur expenditure for such purposes. The nature and extent of such expenditures are not
uniform also. The extent of such expenditure may vary from person to person or a traveller mayn't spend even a single rupee for such purposes. These expenditures include the expenditure on shopping, purchase of souvenirs, purchase of electronic items, purchase of jewellery, expenses on liquor, expenses on entertainment and food outside the place of stay, purchase of gifts etc. This category of expenditure is often referred as ‘Other’ (Wall and Woody, 1993) or Local expenditure (Mok and Iverson, 2000). Interestingly, this category of tourists’ expenditure constitutes a substantial part of the tourist’s travel budget and where shopping is a major reason for travel, this proportion may even be higher. Such ‘other’ or ‘uncommon’ expenditures involve shopping and souvenir purchase (Kim and Littrel, 2001; Snepenger et al, 2003; Jansen and Verbeke; 2000; Godbey and Graefc, 1991; Timothy and Butler, 1995), purchasing handicrafts (Sarma, 2004), meals outside hotels; local tour and entertainments; domestic fares; sightseeing (Keown, 1989; Business Times, 1996), purchase of local arts and crafts, and clothing and jewelry (Jung, et al, 2004). The size of this category of tourist expenditures vary from place to place and sometimes amounts to 25 percent of the visitors’ travel budget (Wall and Woodley, 1993). Even in some package tours, sightseeing and other such activities could be purchased in advance but all tourists might not be willing to do so. Moreover, independent tourists may not incur such expenditures in the destination area. Considering the proportion of ‘Other’ expenditure to tourists’ total budget, this is realised to be meaningful and logical to incorporate all such heads of expenditure under one brand and can be regarded as ‘Uncategorized’ expenditure.

These categories of expenditures can be usually studied as follows:

1.5.2a. **Shopping**: Shopping is a popular tourist’s activity and is often the most significant expenditure category on vacations and trips. A considerable amount is spent on shopping by tourists’ at the destinations. Tourists shop for a wide variety of souvenir products, including postcards, T-shirts, objects of nature, local crafts, fine art, wearable art, accessories, jewellery, toys and other items (Swanson, 2004). According to findings of Timothy and Butler (1995), sixty percent (60%) of US travelers identified shopping as their favourite travel activity, ranking first ahead of outdoor, history, beach and cultural activities. Visitors’ in Philippines spent $96.03 per day in December 2004 and more than 25% ($24.05) of the total was spent on shopping alone (Lleave, 2005). Shopping is also considered as the most popular
activity during vacation by tourists. Study results conducted by scholars (Godbey and Graefe, 1991; Keown, 1989; Kim and Littrel, 1999) revealed that visitor expenditure for shopping account for approximately one-third of the total tourism spending. The US tourists who travelled abroad in 1997 also reported shopping as their second most popular activity, (as cited by Kim and Littrel, 2001). Li (1999) found that foreign tourist spent RM 2.50 billion on shopping in Malaysia in 1998 falling behind accommodation, which contributed RM 2.97 million to the economy. Brookman (1998) in his study revealed that about 85 percent of the international tourist rated shopping as number one activity and annually they spent about $18 billion when in the US. He also added that “Shopping is now the largest and fastest growing component of international visitor travel expenditures outpacing lodging and entertainment.” In the year 1987, 1.1 million Japanese tourist visited Hawaii spending $251 per day (Keown, 1989). Keown further added that about one-third of the total Japanese visitors’ expenditure is accounted for shopping which brought about $40 million a year to Hawaiian retailer. The Australian Bureau of Travel Research (as cited by Hobson, 1996) found that 49 percent of all tourists visited Sydney’s shopping facilities in 1992-93 and the international tourists’ total expenditures on shopping amounted to A$ 1.5 billion. According to Kent et al (1983) shopping is the most popular activity among visitors (Kent et al, 1983). They revealed that shopping expenditures amounted approximately 18 percent of visitors’ total expenditures. However, the extent of shopping for self and others is not equal. Keown (1989) observed that most of the shopping budget of tourists was spent on themselves (30% of total budget) their families (25%), with the balance spent on friends (20%), work colleagues (15%) and others (10%).

Tourists also purchase souvenirs and gifts for loved ones. They often make their travel experience tangible by purchasing souvenirs and also acquire gifts for loved ones (Snepenger et al, 2003). A souvenir is something kept as a reminder of a place or event. In the broad sense the word “souvenir” can be used in the idioms of memory, remembrance and of being in touch with the past. According to Gordon (1986) tourist often feel that they can’t go home without ‘something’ and one of the reason for purchasing souvenirs by tourists’ is that they want to express love and thanks to their family and friends while they feel moral obligation towards office staff. This is also influenced by the custom and tradition of gift giving and taking. Like many other communities the Japanese and Koreans have this tradition. They give
gift during summer and year end. They also give gift to their family members and friends upon returning from vacation. This tradition is known as ‘Omiyage’ in Japan and ‘Sunmul’ in Korea (Park, 2000). ‘Buying gifts for friends and relatives at home,’ was ranked second most popular activity by the tourists’ (as cited by Kim and Littrel, 1994). Tourists’ generally buy a simple token of their stay in the country and never leave empty handed. The souvenirs buying are also influenced by the origin of the visitors’. Lleave (2005) in his study revealed that Asian travelers and Overseas Philippines usually include Philippine food and delicacies and foods products in their shopping baskets. On the other hand, European and Western tourists love to purchase handicrafts footwear, handbags, apparel, leather goods and even tobacco and cigarettes. Thus, souvenir purchase account a considerable part of vacation expenditure. The Alberta Resident Tourist Survey (as cited by Getz et al, 1994) reported that Resident tourist spent 12.4 percent of the total tourist expenditures on shopping. The survey also estimated that out of the total tourist expenditures in Alberta in 1991, tourist spent 18 percent on meals and refreshments, 14 percent on retail and souvenir purchases, and another 18 percent on other purchases. Kent et al (1983) rightly observed that ‘to be able, to pursue, to examine, to feel and think of joys derived from purchasing certain merchandise is indeed pleasurable to millions of people, and for them is a minor, if not a major reason for travel’.

There is another purpose for which tourists spend money. That is purchase of handicrafts. Handicraft has been experienced to be an integral part of human life. It carries a message on the culture, economy and history of a place. A tourist buying a craft item means he/she is knowingly or unknowingly buying a message to be taken home. De Vidas (as cited by Sarma, 2004) defined handicraft as ‘a specific form of production and employment which creates as its product an object which represents a social group’. Thus, handicraft is taken to refer to a specific form of production and employment which represents a social group. Local Handicraft often include ‘authentic’ crafts products made by ‘low-tech’ but highly skilled methods (Cohen, 2000). Economically, handicraft production and sales are supporting economic activities for which tourism creates demand. ‘For tourists, handicraft souvenirs embody fantasies, daydreams, symbols, and signs. Promotion of is one of the ways and the tourism industry promotes its product’ (Cohen, 2000). For many destinations revenue generated from the sale of handicraft to the tourists forms a considerable amount of income. Evidences show that tourists incur a sizeable amount on
handicrafts. In a study, Sarma (2004) found that tourists in the North East India purchased handicrafts amounting to Rs.229.22 crore in the year 2004.

1.5.2b **Miscellaneous Expenditure:** Tourists also incur some other expenses while on vacation. Such expenditure commonly include expenditures incurred on local transportation, sightseeing, newspaper and magazine, film roll and accessories, refreshment, cosmetic items, entrance fee, toiletries, porter charges, fees to tour operators, tips etc. Tourists’ expenditure for such purposes constitutes a significant amount of travel budget. The Malaysia Tourism Promotion Board (Business Times, 1996) reported that tourist spending on local transportation amounts to 8%, entertainments accounts for 6%, domestic airfare 5%, organized sightseeing 4% and other miscellaneous expenditure up to 6% of the total travel budget. Similarly, Manente (2000) in her study conducted to analyze the consuming habits of the tourists in Italy revealed the composition of ‘other’ expenditure of tourists as agri-food (18.9%), meat products (3.2%) and other foods (3.3%). According to another report tourists’ miscellaneous purchases include purchase of cigarette, lighters, newspaper and journals, perfumes, cosmetics and skin care products, fishing equipments, sports materials etc. (Business Times ,2003). Keown (1989) reported that over half of the total Japanese tourists bought liquor (78%), women’s cosmetics (72%), candy and chocolate (69%), and jewellery (52%) while visiting Hawaii. An additional 25% to 50% of the tourists bought clothing, fresh fruits, packaged foods, sporting goods, and toys. Clothing is a popular gift choice and one of the items preferred by various consumers groups. On an average, Americans spend $259 a year on this item (As cited by Kim and Littrel, 2001). Wine Council of Ontario estimates that tourists spent between cdn$50 and cdn$500 on wine (Telfer and Hashimoto, 2000). Jung et al (2004) in their study conducted in Canada found the tourists’ actual involvement in five different categories, viz, for book stores and music stores; antiques; gourmet foods in retail stores or firms; local arts and crafts; and clothing shops and jewelry. They also revealed that 50.2 percent of the visitors went to book/music stores; 39.3 percent to antiques shops; 27.2 percent shopped for clothes, shoes and jewelry. Thus, the size of the ‘other’ category expenditure consists of a considerable amount of the tourists’ total budget.

These expenditures (shopping, miscellaneous, etc.) are not common to all tourists. Any one of them may not indulge in such activities. Therefore, these
activities are couldn’t be categorized as the earlier group and hence can be named as Uncategorized Expenditures.

Above dissuasion reveals the existence of the two distinct categories of tourist expenditures. As mentioned they are 'common' or 'categorized' expenditure and the other is 'uncategorized' expenditure.

1.6 Tourism and its Economic Impact:

The economy of destination areas is affected by both the categorized or uncategorized expenditures. Obviously, the local economy is benefited by tourists’ expenditures but this benefit varies depending upon the pattern of tourists’ expenditures. It is realized that in the 20th century tourism has emerged as one of the largest and the fastest growing industries in the global economy (Littrel et al, 2004). The economic benefits to be derived from tourism are generally regarded as the prime reason to become involved in tourism. Two key reasons for encouraging tourism development have been the income and employment benefits created by visitor spending. The tourist generally engages in different activities as they buy goods and services from local shops and facilities; they eat out in restaurants; stay in hotels; attend theaters and visit attractions. Their spending contributes directly to the profitability and employment opportunities within these businesses, and generates tax revenues for the public sector. This is not the end, however, as direct spending on accommodation, food, entertainment and souvenirs are paid out in wages to employees and used to buy in additional supplies, which in turn helps to foster employment and further economic activity in other sectors in the destination region.

Tourists’ expenditure stimulates the economy in three major ways, namely, the direct impact, indirect impact and the induced impact (Hawaii Input-Output Model, 1999).

The direct impact is induced by the visitors’ spending that directly supports the jobs and income of local industries. These are the people and firms that deal directly with the visitors. The direct economic impact of the tourism industry is much easier to grasp. Take jobs, for instance; the number of people who work directly in the tourism industry can be identified and counted using models such as input-out put model.

Secondly, Tourism also produces sizable indirect results, manifested through additional spending and jobs and services associated with the demands of tourism such as construction of tourist facilities, rising real property values or increased
employment. Thus, the indirect impact of visitors’ expenditure stimulates the industry and their business suppliers replenish inventories and maintain their facilities. For example, demand for additional hotel rooms creates a demand for contractor services, which in turn generates needs for steel, bricks, lumber, tile, marble, glass, plumbing systems, air-conditioning systems and a variety of other goods. However, calculating the indirect benefits from travel and tourism requires a number of assumptions, thereby making it very difficult to quantify.

The third effect which is called induced effect of visitor spending is felt when employees of firms in both tourism and its business distribution chain spend their household income for goods and services in the community. The induced effect spreads throughout the economy, far beyond the tourism industry and its supply chain.

Thus, the economic impact of tourism extends to other sectors directly and indirectly. It contributes to overall development of the whole sector in a diversified way.

The United Nations (2004) has summed up the economic impacts of Tourism as follows:

- Tourism generates local employment, directly in the tourism sector and in support and resource management sectors.
- Tourism stimulates profitable domestic industries, hotels and other lodging facilities, restaurants and food services, transportation systems, handicrafts and guide services.
- Tourism generates foreign exchange for the country and injects capital and new money into the local economy.
- Tourism helps to diversify the local economy.
- Improved road systems and infrastructure that contributes to the entire destination can be justified and supported by the benefits from tourism development.
- Increased tax revenues from tourism.

Different studies have been reported at the national and International level those measured the amount of money spent by tourists while on vacation and its impact on local economy particularly. Data released by many valid studies show that tourism income generated by a host country contribute to a large extent to the economy in terms of Gross National Product (GNP), employment generation and foreign exchange earnings. It is also treated as the world’s largest creator of jobs’
(Bezbaruah, 1999). 'It creates 1.5 times more jobs than any other sector. Every million rupee pumped into the tourism industry creates 85 new jobs as against 13 new jobs in the manufacturing sector and 45 in agricultural sector' (Sharma, 2007). Manente (2000) in her study conducted in Italy reported that visitors' expenditure in 1997 amounted to EURO 67.8 billion. Tourism created an estimated 19,99,000 jobs, 9 per cent of employment in Italy in that year. The multiplier effect is estimated to be 1.23 for both the components, international and domestic tourism. The journal New York,(July 2004) reported that in the year 2003 the U.S. travel industry alone received more than $554.5 billion from domestic and international travelers (excluding international passenger fares). These travel expenditures, in turn, directly generated more than 7.2 million jobs with over $158 billion in payroll income for Americans, as well as $94.7 billion tax revenue for federal, state and local governments. In Mexico international tourists spent $6.47 billion during the first six months of 2005 and the tourism industry as a whole was a leading source of foreign currency revenue and employment (WWD, 2005). In 1994 visitor-related expenditures in Hawaii rebounded to $11.0 billion, an increase of 21 percent previous year's total of $11.5 billion representing a 4 percent increase. (Hawaii Input-Output Model, 1999). The total international tourism receipts in Fiji in 1999, including those generated by international fares, amounted to an estimated US$555 billion, surpassing all other international trade categories (Narayan, 2005). In 2004, 2.3 million people visited New Zealand bringing in over $6.3 billion dollars - nearly 18 percent of New Zealand's export earnings into the country (McManus, 2005).

1.7 Tourism and Indian Economy:

The contribution of tourism industry in India to its national economy is found to be significant. In the year 2005, foreign tourist arrivals in India were estimated at 3.92 million. The foreign exchange recorded an unprecedented growth of about 16.5% with receipts at Rs.25172 crore. The growth of about 13.2% in foreign tourist arrivals during 2005 was achieved over and above growth of about 24% witnessed in the year 2004. This achievement was despite of declining trend in the growth of International tourism at the global level (which was 5.6% only). Similarly, the domestic tourists originating in India were also estimated at 382.1 million during the same year. Tourism is still a large forex earner for India, and The World Travel and Tourism Council (WTTC) has predicted that Indian tourism will contribute 12 percent
of the country's total exports and 6.6 per cent of the economy's GDP by the year 2010' (Businessline, 2000). It is also estimated that in the year 2006 India tourism has created 25 million jobs. Out of it, 21 million jobs are directly created. Its' share to the Gross Domestic Product is also found to be 6.1% (Sharma, 2007). In 2005, it is estimated that Indian economy could earn an amount of $5731 million (GOIMOT, 2007) from tourism industry. It is expected that tourism sector would witness a boom over the next 10 years and would create 20.94 millions jobs in the Asia Pacific region. Tourism industry in India has been contributing a large to the national economy. This sector provides job opportunity to 80.5 lakh people directly and 120 lakh people indirectly (Panda and Mishra, 2003). Panda and Mishra (2003) also mentioned that every Rs. 10 lakh invested in tourism creates 47.5 jobs. It is also reported that, the tourism industry in India is expected to grow upto 5000 billion Rupees (6.6% of GDP) by 2010. Tourism is also expected to create 24 million jobs (6.8% of employment); will inject 1300 billion rupees capital investment (7.6% of capital investment) and is going to generate an exported amount of 1600 billion rupees (12% of exports). This is obviously a golden opportunity before a country like India which targets to achieve the status of developed nation by 2020.

It should, however, remembered that tourism may not be beneficial to the destination area even economically. Some of the probable economic cost of tourism may be as follows:

a. Tourism causes rise in the prices of essential items.

b. Tourism leads to increase in the land prices.

c. Tourism result the marginalization of the poorer section of the society.

d. Tourism leads to overdependence on foreign capital.

e. It requires foreign investments and causes leakages of revenue from host countries to tourism generating countries etc.

Further, tourism also has the social, cultural and environmental costs.

1.8 Tourism Earning and Underlying Factors:

Tourists' expenditure is earning for the industry as well as for the local community. It is the economic benefit which people probably try to recognize. Communities contemplating to encourage tourism can estimate the amount of money visitors will spend in their area. Evidences show that earning from tourism occupies an important place in the national economy of a country. Other benefit might include
the improved recreation facilities, expanded cultural and social opportunities, and pride in one's community, but additional revenue provide the usual appeal for the tourism development. However, the extent of expenditure that a tourist will make in a destination area is an influencing factor. Authors have (Gill, 1999) forwarded the view that the following factors affect the tourism earnings of a host country:

a. The total tourists' arrival. There is positive correlation between total tourist arrivals and total exchange earnings.
b. The average days spent by the visitor in a destination.
c. The percentage of high spending category of tourists to local tourists' arrivals.
d. The average per capita tourist spending. The per capita expenditure is determined by a host of factors like the ability to spend, price level of essential and non-essential "tourist products", the motive of the tourists, etc.
e. The tourism income-multiplier, and
f. The percentage of package tourists to total visitor arrivals. Higher the percentage more will be the earnings from package tourists who spend more than the non-package tourists.
g. Volume and intensity of tourist expenditures.
h. Economic development of destination area.
i. Nature and tourist facilities and their attractiveness.
j. Size of economic base of destination area.
k. Degree to which the destination is adjusted to seasonality.
l. Degree of foreign ownership.
m. Degree of recirculation of tourist expenditures etc.
n. Socio-economic structure.
o. Nature of facilities.
p. Point of origin.
q. Length of stay.
r. Purpose of visit

1.9 Tourism and Multiplier effect:

Tourism not only creates jobs in the tertiary sector, it also encourages growth in the primary and secondary sectors of the industry. This is known as the multiplier effect. In the simplest form multiplier calculates how many times money spent by a tourist circulates through a country's economy. Economic benefit from tourism depends upon
the extent of visitor expenditure that result multiplier impacts in the local economy. This multiplier effect may very depending upon the nature of the destinations. The tourism multiplier is the means of estimating how much extra income is produced in an economy as a result of initial spending or injection (Bhatia, 2003). Every time the money changes hands, it provides ‘new’ income and the continuous series of conversions of money spent by the tourists is termed as economic multiplier. Thus, the flow of money generated by tourists spending multiplies as it passes through various sections of the society. Tourists’ multiplier effect is neatly defined by Douglas Pearce (as cited by Gill, 1999). The technique was first developed by British economist Keynes in the year 1930s’ and can be subdivided into four categories as stated below,

1.9.1 **Sales and Input Multipliers:** According to this method the total sales or output stimulated by an initial expenditure is measured as a ratio. Thus, $100 spent by a tourist on a meal could result in a second round of $50 spent by a waitress out of her wages on a dress, and another $40 in a third round by the dress-shop owner on weekly groceries. The total of $190 set against the $100 originally spent by residents gives a multiplier of 1.90.

1.9.2 **Income Multiplier:** The following formula is adopted to measure the relationship between tourist spending and subsequent changes in income.

\[
K = \frac{1}{A x \frac{1}{1 - B x C}}
\]

Where A= Percentage of tourist spending remaining in the region after some has ‘leaked’ away; B= Percentage of income spent by residents on local goods and services; and C=Percentage expenditure of residents accruing as local income (after leakages).

So, if 50 percent of tourist spending remains after first round leakages, and 60 percent income is spent locally, and 40 percent is local income, then the multiplier is:

\[
0.5 \times \frac{1}{(1-0.6 \times 0.4)} = 0.66
\]
1.9.3 **Employment Multipliers**: It is the ratio of direct and secondary employment generated by additional tourism expenditure to direct employment alone. So, if 100 new jobs in the tourist industry gave rise to 20 more, the multiplier would be 120/100 or 1.2.

1.9.4 **Production Multiplier**: Under this method the extra production is measured taking into account increases in stock levels at hotels, restaurants, and shops as a result of increased commercial activity.

Of course, the estimated amount of direct spending by tourists is not equivalent to its total contribution to the economy. Some portion of this spending leaks immediately from the local economy. For a number of retail sales, for example, the goods sold are imported at wholesale value.

*Figure-1.1: General Tourism Income Multiplier Model*

Hence, only the retail markup affects the economy, while the wholesale portion of the value leaves the economy to go to the import producer. For every round of spending, some value leaks and some remains to circulate through linkages among economic sectors.
In the case of spending by tourists, a high proportion of their purchases are often made in labor-intensive service sectors. As a result, a good deal of tourist spending goes to the wages of workers in those sectors. So, in an economy with high proportion of leakages such as high tax rate or high import levels, tourism income multiplier (TIM) tends to be low and tourism will not stimulate the local economy much. The general tourism Multiplier Model is shown in the figure 1.1

From the above discussions it is seen that the tourists' expenditure extends unmatched support to the local economy in different shapes and forms. Perhaps, therefore, most of the countries encourage tourism. The economic aspect is concerned with the issues of employment, balance of payments and foreign exchange. It creates jobs, brings in new money. It is well recognized that tourists spending contributes directly to the profitability and employment opportunities within these businesses, and generates tax revenues for the public sector. In a nutshell we can conclude that tourism is beneficial to the economy at least to some extent although the probable cost of it can't be ignored.
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