CHAPTER-IV

EFFECTS OF TOURISM ON ECONOMY

Tourism Industry today is a great economic force. Its status as a major economic activity has been well established in almost all the nations of the world and in India too.

4.1. ECONOMIC BENEFITS

The most important economic benefit of tourism is the earnings of foreign exchange. The receipts from international tourism provide a valuable source of earnings for many countries both developed as well as developing countries like India. However, the importance of earnings for developing countries is much more. Tourism provides more stable earnings than being provided by many other primary products, and hence is more preferable.

The major economic benefit in promoting the tourism industry has, therefore, tended to be the earnings of foreign exchange for the country. Income from international tourism in the form of foreign exchange earnings adds to the national income. For many developing countries, particularly the small countries which are mainly dependent upon primary products such as a few basic cash crops, tourism often
offers a more reliable source of income. Tourism is thus a very useful means of earnings primarily the much needed foreign currency. It is almost without any competitor as a source of earning for many developed as well as developing countries. Those earnings assume a great significance in the balance of payment calculations of a country. The balance of payments shows the relationship between a country’s total payments to all other countries and total receipts from them.

The balance of payments shows the relationship between a country’s total payments to all other countries and its total receipts from them. Payments and receipts on international accounts are of three types:

1. The visible balance of trade (relating to the import and export of goods).
2. Invisible items (relating to services such as shipping and insurance).
3. Capital transfers.

The receipts from foreign tourism form an ‘invisible export’ similar to other invisibles which come from transportation and shipping, banking and insurance, income on investments etc. Much attention is focused on tourism because of its potentially important contribution to, and also effect upon the balance of payments.
Estimates of foreign exchange earning from tourism are compiled by the Reserve Bank of India as a part of ‘Balance of Payments Statistics’. The estimates are obtained by adding up (a) the total of all individual receipts of Rs.50,000/- and above each for travel and (b) the amount allocated for travel out of ‘unclassified receipts’. The estimates of foreign exchange earnings from tourism since 1991 are given below:-

<table>
<thead>
<tr>
<th>Year</th>
<th>Foreign Exchange Earnings (Rs. In Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>4318</td>
</tr>
<tr>
<td>1992</td>
<td>5951</td>
</tr>
<tr>
<td>1993</td>
<td>6611</td>
</tr>
<tr>
<td>1994</td>
<td>7129</td>
</tr>
<tr>
<td>1995</td>
<td>8430</td>
</tr>
<tr>
<td>1996</td>
<td>10046</td>
</tr>
<tr>
<td>1997</td>
<td>10511</td>
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<tr>
<td>1998</td>
<td>11950</td>
</tr>
<tr>
<td>1999</td>
<td>13041</td>
</tr>
<tr>
<td>2000</td>
<td>14408</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India.

This has also been depicted graphically on the next page.
FOREIGN EXCHANGE EARNINGS FROM TOURISM IN INDIA
FOR THE PERIOD 1991 - 2000

Rs IN CRORES

YEAR


16000 14000 12000 10000 8000 6000 4000 2000 0
The share of India in world tourism receipts has been varying between 0.64% to 0.67% over the last few years. The comparative estimates are given below:

<table>
<thead>
<tr>
<th>Year</th>
<th>World Receipts in Billion US $</th>
<th>Travel in India (Million US $)</th>
<th>Travel receipts in India</th>
<th>Percentage Share of India</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>277.6</td>
<td>1861</td>
<td>0.67</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>315.8</td>
<td>2126</td>
<td>0.67</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>324.1</td>
<td>2124</td>
<td>0.66</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>354.0</td>
<td>2272</td>
<td>0.64</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>405.8</td>
<td>2583</td>
<td>0.64</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>435.6</td>
<td>2832</td>
<td>P.65</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>439.7</td>
<td>2889</td>
<td>0.66</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>441.8</td>
<td>2948</td>
<td>0.67</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>455.5</td>
<td>3009</td>
<td>0.66</td>
<td></td>
</tr>
</tbody>
</table>

Source: World Tourism Organisation and Reserve Bank of India.

This has been depicted graphically on the next page.

4.2 EMPLOYMENT GENERATION

On the employment front also, tourism has may advantages. It provides employment directly and indirectly. For example one tourist according to rough estimates provides employment to three (3) people directly and nine (9) people indirectly. If the tourism is developed, hotels do well, travel agents do well, the seaports/sea transport carriers do well, the transporters in turn automobile industry and handicrafts etc. also grow enormously and do well and get the advantage of it. It can easily be illustrated in the following ways. When a tourist plans his
WORLD TRAVEL RECEIPTS FROM TOURISM 1991-1999
AND SHARE OF INDIA

TRAVEL RECEIPTS
(IN BILLION US$)

visit and actually visits a destination of his choice it results in the following activities.

1. Foreign Travel Agent gets business.
2. Airline gets business.
3. Indian Travel Agent gets business.
4. Banks are contacted for foreign currency requirements.
5. Hotels are booked.
7. Transports are hired.
8. Guides are hired.
9. Handicrafts and other items are sold.
10. Cultural programmes are organized to show him the cultural heritage of the country.
11. Various other activities take Place.

In this way it generates much revenue and employment as well. The country does not have to send out the foreign exchange. As per the estimates of Department of Tourism, Govt. of India, tourism is the second largest source of foreign exchange earnings. Another important aspect of the industry is that it requires no raw-material, labour or overheads to produce a product and sell it to a tourist.
4.3 TRICKLE DOWN EFFECT

Growth of travel and tourism sector generates larger income and employment for those who are directly involved. It is also expected that some secondary activities like retailing and small trading activities would spring up in the growth process. The tourism industry acts as a big boost to the primary producers, artisans, craftsman, factory workers and landscape architects, whose goods are consumed by the transits during their stay in our country. Tourists generally spend a major part of their expenditure on the organized sector activities which involves hotels carriers, restaurants and travel agencies. Still a substantial number of poor people, particularly in our country like porters/hawkers/rickshaw pullers and many other small time workers etc. also benefit by serving tourists. Indirect benefits are also generated for local poor like washerman, vegetable vendors and unskilled workers. The multiplier effects of the tourist spendings create secondary round of economic activities and a sizeable amount of income and employment is generated in the region or country.

4.4 THE MULTIPLIER EFFECT

It is difficult to estimate the economic impact of tourism in any meaningful and quantitative terms, but it is obvious that money spent by tourists goes into circulation and generates multiplier effect. The
flow of money generated by tourists spendings multiplies as it passes through various sections of the economy. Tourism as a source of income is not easy to measure at least with any degree of accuracy. This is because of multiplier effect. The multiplier is a income concept. Basically the ‘Multiplier’ Effect measures the impact of extra expenditure introduced into an economy by a person (Tourist). In case of tourism this extra expenditure in a particular area can take various forms including the following:

1. Spending on goods and services by tourists visiting the areas.
2. Investments of external sources in tourism infrastructure or services.
4. Export of goods stimulated by tourism.

The problem of unemployment are more acute in the developing countries like ours, but at the same time, tourism industry is highly labour intensive service industry and a valuable source of employment. We have used this industry to our benefit as a result of which today, it employs large number of people and provides wide range of jobs which extend from the unskilled to the highly specialized jobs. In addition to those involved in management there are a large number of specialist
personnel required to work as accountants, housekeepers, waiters, cooks, and entertainers, who in turn need a large number of semi-skilled workers such as porters, chamber maids, kitchen staff, gardeners etc. Tourism is also responsible for creating employment outside the industry i.e. those who supply goods and services to those directly involved in tourism for example those involved in furnishings and equipment industry, souvenir industries, farming and food.

4.5 INFRASTRUCTURE DEVELOPMENT

Development and improvement of infrastructure is another important benefit. The benefits from infrastructure investments justified primarily for tourism i.e. airport, railways, roads, water supply and other public utilities, may be widely shared by the other sectors of the economy. In addition to development of new infrastructure the improvement in the existing infrastructure which are undertaken in order to attract tourists is also of crucial importance. With these improvements the residential population of that area also takes advantages of the amenities provided there. A variety of other industries are also promoted which may not serve the needs of tourism. Thus, indirect tourist expenditure is responsible for stimulating other economic activities in the area. The tourist industry illustrates the elementary need for basic infrastructure. It has today the important
benefit of being able to profit from existing infrastructure and thus makes a decisive contribution to the growth of the national economy. The tourist traffic arising from international and national tourism, represents a reward for the capital invested and contributes to the financial efforts required for maintenance of that particular area.

4.6 REGIONAL DEVELOPMENT

There is another important domestic effect which relates to the regional aspects of Tourist expenditure. These type of expenditures are of Special Significance which are spent on the areas which are relatively isolated, economically under developed and have unemployment problems. The underdeveloped regions of the country can greatly benefit from tourism development. Many of the economically backward regions contain areas of high scenic beauty and of cultural attractions. These areas, if developed for use by tourists can bring in a lot of prosperity to the local people. Tourism development in these regions may become a significant factor in redressing regional imbalances in employment and income. Tourist expenditure at a particular tourist area greatly helps the development of the area around it. Many countries both developed as well as developing have realized this aspect of tourism development and are creating and developing
tourist facilities in underdeveloped regions with a view to bringing prosperity there.

**KAHAJURAHO IN INDIA** is an example of one such region, which is now an internationally famous tourist spot. Khajuraho a remote and unknown small village about thirty years ago is now on the world tourist map attracting thousands of tourists both domestic as well as international. As a result of that, today Indian Airlines flies a jet plane between the capital city of New Delhi and Khajuraho which is normally a packed flight. Thousands of tourists visit the place by Air, Rail and Road transport every day to see the architectural beauty of temples and erotic sculptures whose creators were the Chandola Kings, who remained in North India from the 9th to the 13th Century. Today 22 glorious temples remain, perhaps, the most classic Indian architecture, wreathed in seemingly living culture. Together they represent the finest expression of the art of Medieval India.

The area around Khajuraho is now pulsating with life. The place has provided employment to hundreds of local people in hotels and shops. Due to this, clay model industry devoted to making replicas of famous temple sculptures is now doing thriving business. A number of shops dealing with items of presentation, handlooms, and handicrafts
have created jobs for many. As a result of this local people have started earning an additional income which has resulted in their increased prosperity. The subsequent development in the area around Khajuraho has provided additional employment opportunities resulting in general prosperity of the people in the area.

Khajuraho would have remained a remote unknown village if it would not have been developed as a tourist spot. Many such areas of tourist interest where industrial development is out of question because of distance from productive markets, lack of raw materials and transport facilities, scarcity of power, water etc. can greatly benefit if they have potential for tourism and are developed properly. These areas, if developed for tourism, can provide a lot of prosperity in the region and can provide jobs for a large number of unskilled workers. We must keep on identifying these types of areas of tourist interest and should develop them, which in-turn will become a great asset to the region in particular and to the country as a whole.

4.7 INTERNATIONAL UNDERSTANDING

Improving international understanding is another major area where tourism has always played a major role. Tourism can be a vehicle for international understanding by way of bringing diverse
people face to face. It has been cited as a major contributor to international goodwill and as a prime means of developing social and cultural understanding among all peoples of the world. The interaction of a large number of people with the local population of the country visited results in making friends and goes a long way in increasing friendships. People belonging to different countries, practicing different life styles and speaking different languages come together to become friends. Tourism can greatly enrich and promote friendship and goodwill. There is a mingling of cultures which has positive effects. Tourism helps to break down prejudices, barriers and suspicions that exist between nations. The very best way of getting to know another country is to go there and when lot of numbers travel for tourism, the narrow rigid boundaries that keep people in cocoons disappear and they come out. Thus, a positive move towards better international understanding beings to operate. Business delegations meet each other and explore new avenues. Import, Export and trading of products gets a new direction. Tourism thus is not only an economic activity of importance but it is an important medium of social and cultural development and also of promoting lasting goodwill and friendship among the nations of the world. It also helps in the regional development of the country. In the long run, the most important
contribution of tourism is developing understanding among varied cultures and life styles.

Unfortunately, the developing nations of the world still enjoy only a very small fraction of the total tourism turnover in the world e.g. India only accounts for 0.67% of the world’s turnover. This has to be remedied by promoting tourism. Ways and means have been discussed in the next chapter. Tourism is the most pleasant & effective way of transferring surplus resources from affluent to the developing societies of the world. Development of tourism, particularly in developing nations, helps in generation of lot of resources that are required for the development of the country. Within the country also tourism can become a major economic factor. Through multiplier effect every unit of money spent in tourism circulates in the economy, bringing an increasing area of benefit to the people concerned. In India, where economic development and the battle against poverty must get the highest priority, tourism can be a very positive and a very definite factor for growth.