Vol.1 No.1 July 2013 ISSN : 2321 – 788X

Impact of Tourism and Hospitality Industry on Indian Economy

T.Z.Ahamed

Assistant Professor, Department of Hotel Management and Catering Science,
Madurai Kamaraj University College, Madurai – 625 002

Abstract

Tourism contributes significantly to the economic development of a nation and for this reason governments are prepared to invest public funds for the development of tourism in a country. Public funds are invested in developing infrastructure such as construction of roads, airports, etc. and private investors are encouraged to construct hotels, resorts, and transportation because of the perceived economic benefits of tourism. India's GDP has been growing at over eight per cent on an average since 2004 and is expected to touch the nine per cent mark in the coming years.

Governments encourage the development of tourism because of the income it can generate specially in terms of foreign exchange earned. The income generated by tourism has a positive impact on a country's GDP, balance of payments, and government revenue. However some of the figures may be misleading unless they are corrected for leakages.

Key Words : GDP, Employment, Tax revenue, Foreign exchange, Infrastructure, multiplier effect.

Introduction

Travel and tourism industry contributes about 5.8 per cent to the Indian GDP. the government is encouraging the private sector to invest in accommodation, entertainment, food and beverage sector, etc. by providing incentives to the developers of facilities such as tax holidays and is encouraging public – private partnership (PPP) projects. Tourism promotion can be a very good tool in boosting economic development through creating new jobs, and income generation opportunities, earning a substantial amount of foreign exchange, and development of backward regions. Certain economic costs have to be incurred, if tourism has to develop as an economic activity. These costs need to be planned and managed well, if the business has to run profitably.

Economic benefits of tourism include

- employment generator
- increased tax revenue
- foreign exchange earner
- rural development promoter
- improved infrastructure
- increased gross domestic product

Employment

The tourism industry has tremendous capacity to generate both direct, indirect, and induced employment. Since it is a highly labour intensive industry and many jobs involve low-skilled work, it is beneficial to the vulnerable and unemployed sectors of the local community as formal education and prior work experience are no mandatory. Jobs created through tourism are spread across many sectors of the economy such as hospitality sector, transport sector, retail sector, manufacturing sector, travel and tour operations, etc.

Hotels, restaurants, airlines, other transport operators, tourist offices, travel agents, guides, tour operators, etc. provide direct employment to people at different levels in the organizational structure. Indirect employment through tourism includes all ancillary service providers such as florists, taxi drivers, electricians, plumbers, furnishers, etc. Shops and emporia selling local handicrafts and handloom products provide a marketing outlet to thousands of craftsmen, weavers, and artisans. A general increase in tourism at a destination will stimulate growth of employment in other areas as well. This type of employment is called induced employment such as more retail outlets, schools, housing facilities for employees, etc.

Many jobs created by tourism are in remote areas where job opportunities do not exist or scarce, for example, in hill stations many families depend on tourism for their livelihood. Local hotels, attractions, restaurants, transport, etc. provide direct employment to the residents. Tourism provides a broad spectrum of jobs ranging from highly trained managers in five star hotels and resorts to waiters, guides, transport workers, artisans, etc.

Tax Revenue

Tourism activities are also an important source of taxation revenue. Many taxes are hidden, i.e. they are a part of a package or included in the cost of the airline ticket so that tourists are unaware of such taxes. Tourists also generate taxation revenue through the purchase of tourism offerings, which are subject to sales tax, service charge, value added tax (VAT), etc. Some taxes are ad valorem taxes, i.e. set as a percentage of the price, while others like airport departure tax and visas are specific amounts.

Tourism generates both direct and indirect revenue for the government. When people are employed on tourism projects, the government receives revenue through income tax and VAT on goods purchased. The operation of tourism establishments contribute to the government's revenue pool in many ways such as gambling taxes for running a casino, food licence for preparing and servicing food, import duties on imported articles, entry fee at attractions, etc.

Apart from curbing leakages, the economic benefits through tourism can be further enhanced by the following measures:

1. Increase the amount of money spent by tourists at the destination by
   - Providing a greater variety of attractions and activities which will increase the duration of stay and encourage repeat visits,
   - Attracting alternative forms of tourism.
   - Organizing shopping festivals.

2. Local ownership and management of tourism facilities at destinations through
- Bed and breakfast establishments at destinations where there is a shortage of hotels.
- Encouraging agritourism, ecotourism, cultural tourism, rural tourism and farm stay with local entertainment.
- Involving local community in a wide variety of services such as handicrafts, laundry, gardening, and ayurvedic medications.

3. Tourism contributes to government revenue through
- airport taxes, fees, and levies entrance fee at attractions
- hotel and restaurants registration fees and licences; for example, liquor licence
- travel agents and other tourism businesses registration / licence fee corporate income tax on profits
- import duty on items directly imported for tourism sector, for example, alcoholic beverages
- local taxes like property tax
- personal income tax
- parking charges
- VAT on goods purchased

Foreign Exchange

Tourism has emerged as one of the largest foreign exchange earning economic activity in India. Foreign exchange earnings from tourism are computed by the Reserve Bank of India (RBI) as part of its exercise to collect balance of payment statistics. Tourism is the only export trade that earns large amounts of foreign exchange without reducing national resources and without actually exporting any material skill. Inbound tourism is the largest source of foreign exchange earnings and tourism has been rightly called an invisible export.

Rural Development

Tourism creates jobs in the under developed regions and in rural areas. For example, rural tourism and ecotourism are popular forms of tourism, which generate employment opportunities and prevent the migration of villagers to the densely populated urban slums. Because of tourism activity in the region, basic amenities develop and raise the standard of living of the rural poor.

Improved Infrastructure

Infrastructure is one of the basic requirements for successful tourism at the destination. Tourism stimulates infrastructural development like good airports, network of roads, sanitary systems, and water purification plants etc. which not only benefit the tourists but the hosts as well and improves their quality of life.

Gross Domestic Product

International and domestic tourism combined generate up to ten per cent of the world's gross domestic product (GDP). This figure varies from one country to another. In a growing economy, there is an increase in GDP every year. The GDP reflects economic growth. This however does not mean that the entire population is benefiting from economic growth as the distribution of income in developing countries is uneven. Tourism should aim at economic development, i.e. an improvement in the socio economic status of all people in a given population and not only a privileged few. To measure economic development, we need to use other indicators which measure longevity, educational attainment and an acceptable standard of living.

Leakages

It refers to the process through which tourism receipts are withdrawn or leave the destination's economy. This happens when money is spent on buying goods and services from another economy or when money is put into savings. The smaller the economy, the greater the likelihood tourism needs have to be imported. If many goods/ services used by the tourism industry need to be imported, tourism is said to have import leakages.

Leakage is siphoning of income from the income flow of a destination. Foreign exchange leakages occur when a country uses a large number of goods and services such as building materials, food and beverages, machinery and equipment, furnishings and furniture, foreign consultants, management fees, etc. Other forms of leakages include increased consumption of imported goods because of demonstration effect, cost incurred by government in providing financial incentives, export of profits to foreign owners, MNCs, etc. The real earnings from tourism can be determined only after all leakages, i.e. payments made of parties outside the country have been adjusted.

Leakages can be curbed by the following measures:

Use of Local resources Local raw material, for example, building material will add to the local flavour of the destination.

Local ownership Local ownership and control of hotels and restaurants should be encouraged and governments should provide maximum financial incentives.

Promotion of local foods and beverages Local foods and beverages prepared under high standards of hygiene and sanitation may be modified to increase their acceptability.

Conducting local training programmes Inviting trainers from within the country would help the income to remain within the economy.

Ensuring quality and safety Tourism providers should be more quality and safety conscious so that tourists are agreeable to trying out local products and do not demand goods from their home countries.

The Multiplier Effect

Money earned from tourism activity is a major contributor to the national income of a country[2]. Without considering receipts from domestic tourism, international tourism receipts alone contribute vast amounts.

New money entering the economy in any form, be it investments, government grants, remittance from workers abroad or tourist expenditures – stimulates the economy not once but several times. The flow of money generated from tourist spending or any source multiplies as it passes through various sections of the economy because of the multiplier effect.

Let us consider the following example. An international tourist pays a hotel for his / her accommodation and meals. The hotel uses part of the money to purchase provisions such as groceries, meat, bread, linen, and flowers from the supermarket, bakery, furnishing store, and florist respectively. Some of the money is used for salaries and wages to staff and casual labour, some is kept aside for savings, and some used for payment of property tax. The payment made by the tourist to the hotel is a direct expenditure, while expenditure by the hotel on daily supplies is an indirect effect of the original expenditure which the tourist made. The waiter working in the hotel spends part of his salary on purchasing provisions, part on house rent; and the additional payment received as tips for good service on toys for his child and on a special outing for the family. This shows that as income levels rise due to tourism, some additional personal money is spent at the destination. These are induced benefits of tourism.

The bakery will use the money received from the hotel to buy flour, margarine, and eggs from the wholesale suppliers, on the worker's wages, on paying electricity bill, and on taxes. The expenditure made by the baker is induced expenditure.

If we study each round of expenditure, we see that a proportion of money goes to the local suppliers, the residents as salaries and wages and to the government in the form of taxes. Money, which is saved or spent on imported goods will cease to circulate in the economy, loses its stimulative value and is called a leakage. Leakages are far lower in economies where business supply and support each other and amount spent on imports is low. The concept of the multiplier is based on the inter dependence of the different industrial sectors of the economy. The strength of linkages between these different sectors, determines the size of the impact multiplier. For example, if the linen needed by the hotel is not available in the furnishings store or is of poor quality, there is no inter-industrial linkage to increase the positive impact of tourism on the industry. In such cases, linen will need to be imported and the local economy will not get the benefit.

If the hotel receives more guests and associated income, the amount spent by the hotel in the local economy will be more, and will result in a chain reaction of increased production, income, and expenditure which will be reflected throughout the economy. Because of the interdependency of various sectors, any change in tourist's expenditure will bring about a change in the economy's level of production and income.

---

[2]Andrews.S 2007, Introduction, to Tourism and Hospitality Industry, Tata.Mc.Graw Hill Company Limited, New Delhi.

The size of the tourism multiplier will be determined by the number and strength of the linkages within the economy as well as the various sources of leakages. While intersectional linkages maximize the positive economic impact, because of the multiplier effect, leakages, lower the multiplier effect as money is withdrawn from the economy through imports.

Summary

The economic impact can thus be increased by supporting and creating strong linkages within the tourism industry and minimizing the leakages.

Tourism can also create risks and negative economic impacts at the local destination such as increased cost of living, due to increase in the prices of essential commodities like food, house rent, etc. Opportunity costs of tourism in rural areas which is the cost of investing in tourism instead of traditional farming, also gets affected.

Excessive dependence on tourism may have some risks in case of emergency situations. Like natural calamities or terrorist attacks in which case tourists may abandon a destination indefinitely.

References

1. Bhatia, A.K. 2001, International Tourism Management, Sterling Publishers Pvt. Ltd., New Delhi.
2. Davidson, R.1994, Business Travel, Pitman, London.
3. Goswami, B.K. and G. Raveendran 2003, A Textbook of Indian Tourism, Har-Anand Publications Pvt. Ltd., New Delhi.
4. Hinch, T. and J. Higham 2006, Aspects of Tourism : Sports Tourism Development, Viva Books Pvt. Ltd., New Delhi.
5. Kamra, K.K. and M.Chand 2004, Basics of Tourism : Theory, Operation and Practice, Second Edition, Kanishka Publishers, New Delhi.
6. Sunetra Roday, Archana Biwal and Vandana Joshi, Tourism Operations and Management, Oxford University Press, New Delhi, 2009.
7. Andrews.S 2007, Introduction, to Tourism and Hospitality Industry, Tata.Mc.Graw Hill Company Limited, New Delhi.