

# Economic impact of tourism in India

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## ABSTRACT

Tourism is world's largest industry without making smoke. It occupies one in nine global jobs and contributes 10 per cent to the world's Gross Domestic Product. It is a dynamically developing area of external economic activities. It affects different other sectors of the economy through its high growth and progress rates, substantial amounts of foreign currency inflows, infrastructure expansion and introduction of new management and educational experiences. Consecutively it adds positively to the social and economic development of the country as a whole. Its actual and potential economic impact is amazing. So this paper is an attempt to measure the economic impact of tourism in India. Currently a lot of measures are there to measure the impact. The important measures are Input-Output Method, Multiplier Method, Economic Impact Assessment Scale, Tourism Satellite Accounts Method, Impacts of Visitor Spending Method and Computable General Equilibrium Model. In this study the author is using the Visitor Spending Method.

**Keywords:** Tourism, economy, impact, measurement, development

Tourism is a rapidly growing industry of the world. It is gaining universal acceptance as a potent engine for comprehensive socio economic development because of the employment opportunities it created and the infrastructure development as a result of it. It has the prospective to inspire other economic indicators through its forward and backward linkages. Also it

has the capacity to generate more employment due to its multiplier effect in the economy. Tourism in India has developed slowly over the years. India is famous for its rich cultural heritage. This cultural tradition of the country was based on the bywords 'Athidi Devo Bhava' and 'Vasudhaiva Kudumbakam'. The advertisement campaign 'Incredible India' introduced by the Ministry of Tourism is to promote India's culture and tourist attractions in a fresh and unforgettable way. The development of Indian tourism in the 19<sup>th</sup> and 20<sup>th</sup> century was constituted by the establishment of railway system, modernisation of ports and development of hill stations. India's tourism during post independence is based on the remark of Pandit Jawaharlal Nehru that "welcome a tourist and send back a friend".

Access this article online	
<b>Publisher</b>	Website: <a href="http://www.ndpublisher.in">http://www.ndpublisher.in</a>
	DOI: 10.5958/2321-5771.2016.00013.2

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Travel and tourism constitute an integral part of India. Tourism is considered as an engine of growth. It is also a generator of employment. The sector has the capability to produce employment for the various sections of the society in a large scale manner including both direct and indirect. Indian tourism development has passed through different stages. Tourist facilities development in a planned manner was taken up in 1956. India Tourism development Corporation was formed in 1966 to promote India as a tourist destination. Later government took a lot of measures for the development of tourism in the country. The major initiative taken by the government for the tourist expansion include 'Hunar se Rozgar' Programme and Visa on Arrival. With 30 worlds heritage sites and strong creative industries India scored 8<sup>th</sup> rank in natural resources and 24<sup>th</sup> rank in cultural resources. Indian air transportation network scored 39<sup>th</sup> and ground transport infrastructure 43<sup>rd</sup>. In India the major organisations involved in tourism are:

- ❖ Department of Tourism
- ❖ India Tourism Development Corporation
- ❖ Indian Institute of Tourism and Travel management
- ❖ National Council for Hotel management and Catering Technology and
- ❖ Tourism Finance Corporation of India Limited

The major tourist attractions in India includes wide-ranging life styles, vast cultural heritage, beautiful sun bathing beaches, colourful fairs and festivals, forests and wild life, attractive fauna and flora, wonderful architecture, technological parks and science museum, yoga, ayurveda and handicrafts especially jewellery, carpets, leather goods, ivory and brass work. Different tourism products in India include:

- ❖ Medical/Health Tourism
- ❖ Spiritual Tourism
- ❖ MICE Tourism
- ❖ Adventure & Wild Life Tourism
- ❖ Heritage & Culture Tourism
- ❖ Cruise Tourism
- ❖ Polo Tourism
- ❖ Eco Tourism and

- ❖ Film Tourism
- ❖ Growth of Tourism in India

The recognition of tourism as an instrument of economic and social development has been rather late in most of the developing countries especially in India. It was only during 1946 that the importance of tourism was first recognised in India, when a Committee under the Chairmanship of Sir John Sargent was appointed to advise the government on the development of tourism. Thereafter, post-independence, the Government of India took note of the tourism phenomenon and its economic implications thus leading to the establishment of a 'Tourist Traffic Branch' in 1949, under Ministry of Transport. In 1952, the government of India opened a tourist office at New York and this began a close association between Department of Tourism and Air India in promoting air traffic to India. In 1955, Air India established a 'Tourism Cell' in their headquarters at Bombay and a government of India Tourist Office was opened at London. The development of tourist facilities was taken up in a planned manner in 1956 coinciding with the Second Five Year Plan. Another significant development was the expansion of the 'Tourism Section' in the Ministry of Transport into a full-fledged 'Directorate of Tourism' in 1958.

The approach towards tourism has evolved from being the isolated planning of single unit facilities in the Second and Third Five Year Plan to that of achieving a superior quality of life in the Eleventh Five Year Plan. It was during the Sixth Plan that tourism began to be considered a major instrument and economic development (Sharma, 2014). During the 1980s, tourism activity gained momentum as the government took several significant steps. A National Policy on tourism was announced in 1982. Later in 1988, the National Committee on Tourism formulated a comprehensive plan for achieving a sustainable growth in tourism. In 1992, a National Action Plan was prepared and in 1966 the National Strategy for Promotion of Tourism was drafted. In 1997, a draft for a new tourism policy, in tune with the economic policies of the government and the trends in tourism development, was published for public debate.

The other major developments that took place were the setting up of the Indian Tourism Development Corporation in 1966 with an objective of promoting India as a tourist destination and the Tourism Finance Corporation in 1989 to finance tourism projects. Altogether, 21 Government-run Hotel Management and Catering Technology Institutes and 14 Food Craft Institutes were also established for imparting specialised training in hospitality and catering (Sharma, 2014). For promotion of tourism, India introduced the Special Economic Zones Act, 2005. The Special Economic Zone is a geographical area where the economic and other trade related laws are more relaxed than the country's national laws prevailing in all other parts. In a Special Economic Zone area, those laws may be suspended or amended. Special Economic Zone covers Free Trade Zones, Export Processing Zones, Free Zones, industrial Parks, Free Economic Zones. The primary motto is to attract foreign direct investment and infrastructure development, finally leading to economic development and creation of opportunities. The Special Economic Zone Policy was announced in April 2000 and the Special Economic Zone Act in 2005. The remaining uncovered part of India by the Special Economic Zone rules is known as the Domestic Tariff Area. The National Advisory Council prepared a draft of Special Economic Zone to boost tourism and increase investment, employment and infrastructure in the country. The National Advisory Council's proposal to Ministry of Tourism suggested (source: <http://tourism.gov.in>):

- ❖ Special Economic Zones are to be located in tourist destinations, cities along the coastlines.
- ❖ Government should provide single window clearance for setting up of these zones.
- ❖ Ten per cent tax exemption for a period of ten years.
- ❖ Each Special Economic Zone should be able to provide 2000 to 3000 hotel rooms.
- ❖ Facilities for shopping, entertainment should be available.
- ❖ Exemption from import duty on capital goods to be permitted.
- ❖ Withdrawal of luxury tax, lower VAT etc.

- ❖ Exclusive NRI tourism zones or elite world tourist zones for high-end global tourists.

The states Kerala, Goa, Gujarat etc. have been identified as Special Tourism Zones for the growth of the regions Bekel, Malabar and Wayanad regions in Kerala, Kevadia in Gujarat, Commonwealth village in Delhi, Kundil-Manesar-Palwal in Haryana, Gorai-Manori-Uttan, Manandargarh and Sindhudurg in Maharashtra, Manali and Kullu in Himachal Pradesh. The implementation of Tourist Visa on Arrival system by the government contributed to the enormous growth rate of the foreign tourist arrivals to the country. This system enabled with Electronic Travel Authorisation (ETA) Scheme was launched on 27-11-2014. This is for citizens of 43 countries to travel to India for tourism for a short stay of 30 days. But the only condition is that their intention to visit India is for sight-seeing, recreation, casual visit to meet friends and relatives, casual business visit and short duration of medical treatment. In October 2013 an agreement was signed by the International Finance Corporation (World Bank Group), Ministry of Tourism, Government of India and the Departments of Tourism of the Governments of Bihar and Uttar Pradesh. This agreement was for the up gradation and quality of the services and products to the tourists in the "Buddhist Circuit" in India. As a result "Investing in the Buddhist Circuit" was launched on 17<sup>th</sup> July 2014. In the 2014-15 Budget two new schemes were announced for the promotion of Tourism.

Nowadays tourism directly contributes 2.2 per cent of the total GDP of the country that is Rs. 2478.2 billion in 2014. On the other hand the total contribution of travel and tourism to GDP was Rs. 7642.5 billion i.e., 6.7 per cent in 2014. Whereas tourism's total contribution to employment generation in India was 36695500 jobs (i.e., 8.7 per cent of total employment generated in the country) including directly supported 23024000 jobs. This sector showed a growth of 10.6 per cent in foreign tourist arrivals, which is higher than the medium growth rate of 4.7 per cent in the global level. The tourist arrival in India including both foreign and domestic from the year 2000 to 2014 is shown in the table 2.

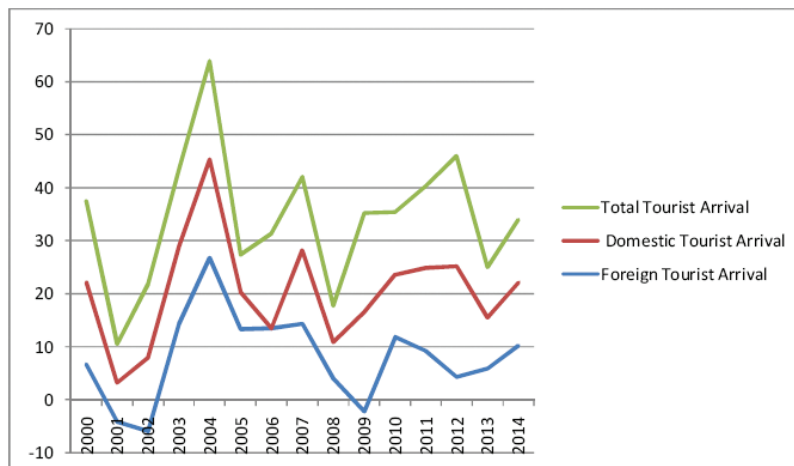
**Table 1:** Tourist Arrivals in India from 2000 to 2014

Year	Foreign Tourist Arrivals in Numbers	Domestic Tourist Visits in Numbers	Total Number of Tourist Arrivals
2000	2649378	220106911	222756289
2001	2537282	236469599	239006881
2002	2384364	269598028	271982392
2003	2726214	309038335	311764549
2004	3457477	366267522	369724999
2005	3918610	392014270	395932880
2006	4447167	462321054	466768221
2007	5081504	526564478	531645982
2008	5282603	563034107	568316710
2009	5167699	668800482	673968181
2010	5775692	747703380	753479072
2011	6309222	864345107	870654392
2012	6648318	1044993234	1051641552
2013	6967601	1145312584	1152280185
2014	7679099	1281604781	1289283880

**Source:** Ministry of Tourism, Government of India

The tourist arrival to the country showed a tremendous growth over the years. The number of foreign tourist inflow into the country during the year 2000 was 2649378. On the other hand the number of domestic tourist was 220106911. In all other years, we can see a steady growth in the number of foreign tourist arrivals except in 2002 and 2009 where there is decrease in foreign

tourists arrivals. But the domestic tourist arrival showed a steady increase in all the years. The total number of tourist arrival in the year 2014 was 1289283880 including 7679099 foreign tourists and 1281604781 domestic tourists. The overall trend of tourist arrivals in the country is shown in the chart 1.

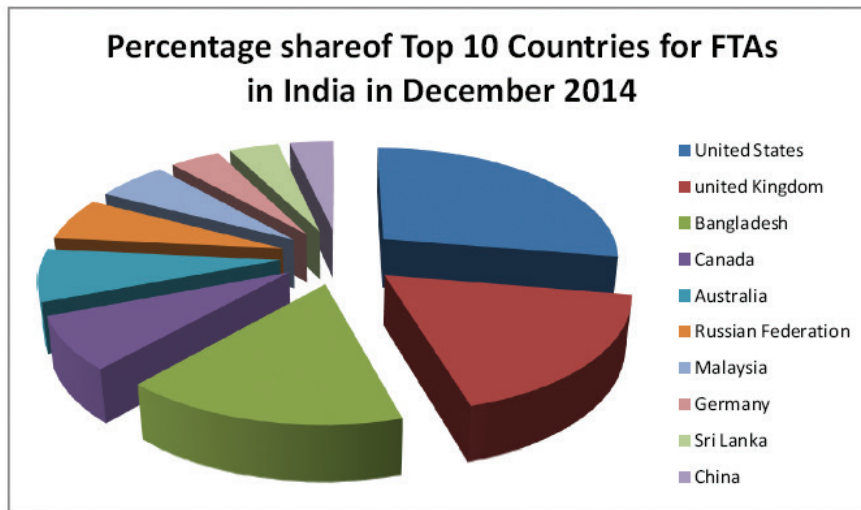
**Chart 1:** Trend of Tourist Arrivals in India

**Source:** compiled by the author

India has received foreign tourists from different parts of the world. Bureau of immigration recognised ten countries as the most visited in 2014. Most of them

are from European continent. Chart 2 exhibits the percentage share of top 10 countries for foreign tourist arrivals.

**Chart 2:** Percentage share of Top 10 Countries for FTAs in India in 2014



Source: Compiled by the author

The percentage share of foreign tourist arrivals in 2014 was highest from USA i.e., 17.62 per cent. USA was followed by UK (11.44 per cent), Bangladesh (10.22 per cent), Canada (4.81 per cent), Australia (4.75 per cent), Russian Federation (3.91 per cent), Malaysia (3.65 per cent), Germany (2.58 per cent), Sri Lanka (2.54 per cent) and China (2.25 per cent).

It has been calculated that travel and tourism can offer a considerable resource in the upcoming period to the country. That is tourism has a potential to provide seven million new jobs in India. It includes accommodation, transportation, eating and drinking establishments, retail shops, entertainment business, activity facilities and other hospitality services. Likewise it is a mixture of different productive sectors of the economy like, agriculture, transportation, accommodation, cottage industries, entertainment and communication.

### Impacts of Tourism

The development of tourism industry led to the development of the localities by increasing the income of the people as a result of the increase in the tourist expenditure. Tourism contributes to the development

of other sectors of the economy and also encourages the cultural exchange in the locality. As a result the impacts created by tourism are varied. Generally they are divided into Economic Impacts, Social and Cultural Impacts and Environmental Impacts. The most important impact created by tourism is upon the economic condition of the economy. So the major economic impacts are increase in the employment opportunities, increase in investment, development and infrastructure spending, increase in tax revenue, create new business opportunities and contribute to income and standard of living of the people. The effects of tourism upon the economy can be classified into direct effects, indirect effects and induced effects. Direct effects are related directly with the visitor spending. On the other hand indirect effects are changes in the economy as result of the secondary rounds of purchases made in the direct spending. But the induced effects are related to the changes in the economy as a result of income received from the tourist expenditure (either directly or indirectly).

Social and cultural impacts can be positive or negative. The important positive social and cultural impacts which are created by tourism include increase in the amenities



like parks, recreation facilities etc., improvement in the quality of life of the people, improves understanding of different communities and investment in arts and culture. On the other hand the negative social and cultural impacts are loss of native identity, cultural

clashes, social stress like increased demand for resources, exclusion of locals from natural resources and ethical issues like sex tourism or child labour. Tourism depends entirely on the natural environment. So it creates impacts upon the environment also. The

important environmental impacts are depletion of natural resources, pollution and physical impacts like marina development, loss of biodiversity, construction activities and trampling. The possible impacts can be summarised in a table 2

**Table 2: Possible Impacts of Tourism**

Type of Impact	Positive	Negative
Economic	<ul style="list-style-type: none"> <li>-Increased expenditures</li> <li>-Creation of employment</li> <li>-Increase in labour supply</li> <li>- Increase in standard of living</li> </ul>	<ul style="list-style-type: none"> <li>-Price increases during event</li> <li>- Real estate speculation</li> <li>- Failure to attract tourists</li> <li>- Better alternative investments</li> <li>-Inadequate capital</li> <li>- Inadequate estimation of costs of event</li> </ul>
Tourism/ commercial	<ul style="list-style-type: none"> <li>-Increased awareness of the region as a travel/tourism destination</li> <li>-Increased knowledge concerning the potential for investment and commercial activity in the region</li> <li>-Creation of new accommodation and tourist attractions</li> <li>- Increase in accessibility</li> </ul>	<ul style="list-style-type: none"> <li>-Acquisition of a poor reputation as a result of inadequate facilities, improper practices or inflated prices</li> <li>-Negative reactions from existing enterprises due to the possibility of new competition for local manpower and government assistance</li> </ul>
Physical/ environmental	<ul style="list-style-type: none"> <li>-Construction of new facilities</li> <li>-Improvement of local infrastructure</li> <li>-Preservation of heritage</li> </ul>	<ul style="list-style-type: none"> <li>- Ecological damage</li> <li>- Changes in natural processes</li> <li>- Architectural pollution</li> <li>- Destruction of heritage</li> <li>-Overcrowding</li> </ul>
Social/ Cultural	<ul style="list-style-type: none"> <li>-Increase in permanent level of local interest and participation in types of activity associated with event</li> <li>- Strengthening of regional values and traditions</li> </ul>	<ul style="list-style-type: none"> <li>-Commercialisation of activities which may be of a personal or private nature</li> <li>-Modification of nature of event or activity to accommodate tourism</li> <li>Potential increase in crime</li> <li>-Changes in community structure</li> <li>-Social dislocation.</li> </ul>
Psychological	<ul style="list-style-type: none"> <li>-Increased local pride and community spirit</li> <li>-Increased awareness of non-local perceptions</li> </ul>	<ul style="list-style-type: none"> <li>-Tendency toward defensive attitudes concerning host region</li> <li>-Culture shock</li> <li>-Misunderstanding leading to varying degrees of host/visitor hostility</li> </ul>

## Economic Impact of Tourism in India

Political/  
administrative

-Enhanced international recognition of  
region and values  
-Development of skills among  
planners

-Economic exploitation of local  
population to satisfy ambitions of political elite  
-Distortion of true nature of event to  
reflect elite values  
- Failure to cope  
- Inability to achieve aims  
- Increase in administrative costs  
- Use of event to legitimate unpopular  
decisions  
- Legitimation of ideology and socio-cultural  
reality

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Source: Hall, 1992

Thus whether positive or negative, tourism is a force for modify the world and the industry is changing at an amazing rate.

### Economic Impact

Tourists contribute to the economy as their expenditure. As a result the economic impact assessment focuses on the changes in employment, sales and income of the economy resulting from tourism activities. So the economic impact of tourism covers the effects of visitors in an area, their performances and their spending. These effects include the economic changes like

- ❖ earnings including wages, dividends, interest, rent and profits
- ❖ business proceeds
- ❖ employment generation
- ❖ government revenue including taxes, receipts of government enterprises, user fees and fines
- ❖ value added to the gross domestic and regional products
- ❖ changes in government spending
- ❖ changes in the foreign exchange rates
- ❖ externalities and public goods
- ❖ changes in the distribution of income
- ❖ multiplier effects on transactions, output, income, employment and government revenue
- ❖ changes in the property and asset values
- ❖ new business formation including business investment in plant and equipment

- ❖ changes in imports, exports and balance of payments.

As a result tourism is considered as a vehicle for economic development. International tourism is an invisible export. Where, currency flows from foreign country to the tourist country. So it directly contributes to the balance of payment current account. This flow generates employment, business turnover, household income and government revenue. This primary effects lead to the secondary effects of further economic activity. The primary sectors which directly affected by tourism are amusements, lodging, transportation, retail trade and restaurants. The positive economic effects of tourism can be understood under through the generation of national income, generation of foreign exchange, raising of tax revenue, expansion of employment opportunities and transformation of regional economy.

### GENERATION OF NATIONAL INCOME

Different services like transportation services, hotel and restaurants, entertainment centers, amusement parks, sales outlets, tourist resorts, handicrafts and jewelleryes are included in tourism industry. So it contributes to the national income generation. The tourism industry contributes 7.3 per cent of GDP and accounts for 6.5 per cent of total exports. In addition to this tourism sector contribute 2.7 per cent of the total employment in the economy. As it is a highly labour intensive industry it provides employment to skilled, semi-skilled and unskilled persons. The labour-capital ratio is highest in this sector. Women workers are also high in this sector and they are employed in different sectors like travel

agencies, cultural activities airline services, handicraft and hotels. If the direct employment is 1 in the tourism sector, the generated employment is 1.358 persons in other sectors of economy due to linkages with tourism (Ganesh & Madhavi, 2007).

### Raising of Tax Revenue

Tourism also contributes to the economy as tax revenue. In India for the tourism promotion, we are giving tax concession to a lot of related industries. It accounts for 1.15 per cent of the total tax revenue. The tourism receipt in the form of indirect tax is generated from two categories of taxes- specific tourist taxes and general taxes. Specific tourist taxes are generated from supporting constituents like hotel room sale, airport entry and exit taxes. On the other hand general taxes are generated from consumption. However, the international tourists pay extra taxes at various attractions in the form

of entry fees, museum fees, parking fees etc. the increase or decrease of taxation also depends upon the impact of tourism activity on a destination. The mass tourism activity brings congestion, overcrowded streets, over consumption, psychological stress, faster deterioration of natural resources and public services, resulting in higher maintenance costs and the loss of aesthetic value. With the imposition of higher taxes, the restoration process of destinations, which involves fund, can be done by the government. Tourism taxes may be in the following forms:

- ❖ VAT and excise duties
- ❖ Wealth and transaction taxes
- ❖ Local taxes
- ❖ Social contribution

The comparison of taxes in different countries are given in the table 3.

**Table 3:** Comparison of Taxes in Tourism Industry

Country	Room per cent	Food per cent	Liquor per cent
India	16	16	23
Hong Kong	0	0	0
Maldives	3.5	3.5	3.5
China	5	5	5
Japan	5	5	5
Malaysia	6	6	6
Thailand	7	7	7
Singapore	7.7	7.7	7.7

**Source:** federation of Indian Chambers of Commerce and Industry

It is clear from the table 3 is that there are higher taxes to be paid by tourists in India that makes neighbouring countries a cheaper destination to visit. However, some revisions were taken in 2011. They are:

- ❖ In the Union Budget 2011-12, service tax on air travel was hiked by INR 50 for domestic travel and INR 250 for international travel, in the economy class. For higher classes, it is flat 10 per cent.
- ❖ The service tax net was widened to include in its purview hotel accommodation above INR 1000 per day; air-conditioned restaurants serving liquor and some categories of hospitals and diagnostic tests.

- ❖ Under section 80 IA of the income tax act, 1961, similar for airports, seaports and railways, all new hotel projects can avail the benefit of 100 per cent deductions with respect to profits and gains, for a period of ten years.

### GENERATION OF FOREIGN EXCHANGE

The foreign exchange earnings of the country increased from Rs. 2613 crore in 1990 to Rs. 123320 crore in 2014. The average annual growth rate of foreign exchange earnings was 14.5 per cent in 2014. Foreign exchange earnings from tourism show an increasing trend over



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the years. It was Rs. 123320 crore in 2014 as compared to Rs. 107671 crore in 2013. The growth rate of the earnings in 2014 was 14.5 per cent as compared to 14 in 2013 per cent. On the other hand, foreign exchange earnings in

US\$ terms in 2014 were US\$20236 million with a growth rate of 9.7 per cent, as compared to US\$ 18445 million in 2013. The table 4 expresses the foreign exchange earnings from 2000 to 2014 in India.

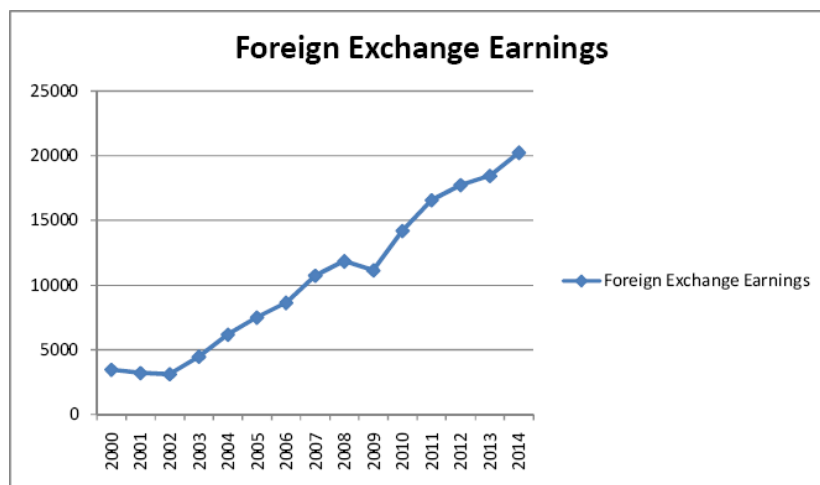
**Table 4:** Foreign Exchange Earnings from 2000 to 2014 in India

Year	Foreign Exchange Earnings in Crore	Percentage Change Over Previous Year	Foreign Exchange Earnings (Million US\$)	Percentage Change Over Previous Year
2000	15626	20.6	3460	15.0
2001	15083	-3.5	3198	-7.6
2002	15064	-0.1	3103	3.0
2003	20729	37.6	4463	43.8
2004	27944	34.8	6170	38.2
2005	33123	18.5	7493	21.4
2006	39025	17.8	8634	15.2
2007	44360	13.7	10729	24.3
2008	51294	15.6	11832	10.3
2009	53700	4.7	11136	-5.9
2010	64889	20.8	14193	27.5
2011	77591	19.6	16562	16.7
2012	94487	21.8	17737	7.1
2013	107671	14.0	18445	4
2014	123320	14.5	20236	9.7

**Source:** Ministry of Tourism, Government of India

The growth trend of the tourist earnings in India is shown in the chart 3.

**Chart 3:** Trend of Foreign Exchange Earnings from 2000 to 2014 in India



**Source:** compiled by the author

### Transformation of Regional Economy

Tourism also contributes to the transformation of unknown villages into internationally known places. These unknown villages were initially characterised by depressed economic activities and inhabited by traditional rural folks. Later the introduction of tourism contributes to the international recognition and higher economic development.

Thus the economic contribution of tourism can be summarised in the table 5.

**Table 5:** The Economic Contribution of Tourism in 2014

Indicators (in Rs.bn 2014 prices)	Values	Growth (%)
Visitor exports	1224.4	6.5
Domestic expenditure	5362.9	7.4
Internal tourism consumption	6587.3	7.2
Purchase by tourism providers, including imported goods	-4109.1	7.2
Direct contribution to GDP	2478.2	7.4
Domestic supply chain	3794.0	7.4
Capital investment	2107.2	3.6
Government collective spending	128.7	7.1
Imported goods from indirect spending	-2173.5	5.0
Induced	1307.8	6.5
Total contribution to GDP	7642.5	7.3
Direct contribution to employment	23024	2.5
Total contribution to employment	36695	2.7
Expenditure on outbound travel	897.7	20.5

**Source:** WTTC Travel and Tourism Economic Impact 2015

### ECONOMIC IMPACT ASSESSMENT

Impact analysis is an economic approach used to measure inter alia the amount of income, government revenue, employment and import generated in an economy by the direct and secondary (indirect and induced) effects of visitor expenditure (Archer, 1989). Economic impact analysis measures the contribution of tourism activities to a region's economy. It also discloses the interactions of different sectors of the economy. Economic impact

can be measured by using different methods like Input-Output Method, Multiplier Method, Economic Impact Assessment Scale, Tourism Satellite Accounts Method and Computable General Equilibrium Model. Tourism Satellite Accounts method is primarily used to get an overall comprehensive estimate of the share of tourism to state and national economies. The Input-Output method analyses the effects of tourism by charting the movement of initial visitor expenditure through different sectors of an economy (Pao, 2005).

The Tourism Satellite Accounts uses estimates of visitor expenditure (usually based on visitor expenditure surveys) and allocate visitor expenditures to different industries. By allocating visitor expenditures by sector and then apportioning value added by sector, the Tourism Satellite Account could provide an estimate of overall value added through tourism and thus identify tourism's contribution to GDP (Smith 1997). Yet, the Computable General Equilibrium models provide a more general approach to tourism impact measurement. Computable General Equilibrium models provide more general approach (Pao, 2005). On the other hand multiplier measures the impact of additional expenditure initiated into an economy. This additional expenditure takes the form of investment by external sources, government spending including both domestic and foreign government (for example domestic government spending on infrastructure in a region or foreign government aid), exports of goods stimulated by tourism and spending on goods and services by tourists visiting the area. Multipliers represent the economic interdependencies between sectors within a particular region's economy. They vary considerably from region to region and sector to sector. The tourism multiplier reflects the tourism development of an economy along with the visitor spending profiles. There are different kinds of multipliers reflecting the types of secondary effects included and the measures of economic activities are used (sales, income, or employment). The Input-Output analyses the consequences of tourism by taking into consideration the progress of initial visitor expenditure through different sectors of an economy. The basic Input-Output model is  $X - AX = Y$ . In this paper we will restrict our attention to the method of Impacts of Visitor Spending.

### Impacts of Visitor Spending Method

The Impacts of Visitor Spending is a method used for calculating economic impact of an economy as a result of tourism. By using this method economic impact can be calculated by using the following equation:

$$\text{Economic Impact of Tourism} = \text{Number of Tourists} * \text{Average Spending per Visitor} * \text{Multiplier}$$

The assessment of impact needs four separate steps.

- ❖ Calculate the number of tourists arrived in the region during a particular period.
- ❖ Calculate the average level of spending of the tourists arrived into that area.
- ❖ Calculate the multiplier of that particular local economy.
- ❖ Apply the formula, Economic Impact of Tourism = Number of Tourists \* Average Spending per Visitor \* Multiplier.

The economic impact assessment rests on the high-quality assessment of number and type of tourists arrived to that area. So the calculation of number of tourists includes the separation of domestic tourists and foreign tourists. Spending pattern of the tourists must consider the types of tourists i.e., whether foreign or domestic, location and seasons. Multiplying the number of tourists by the average spending per visitor gives an estimate of total tourist spending in that area. Finally the calculation of multiplier is tedious. So usually multipliers are borrowed or adjusted from published multipliers or other studies. Normally, multipliers are lower for smaller areas with inadequate economic development and higher for larger areas with more expanded economies.

### ECONOMIC IMPACT ASSESSMENT CALCULATION

For the calculation of tourism impact we can use the equation:

$$\text{Economic Impact of Tourism} = \text{Number of Tourists} * \text{Average Spending per Visitor} * \text{Multiplier}$$

To apply this equation we need number of tourists, average spending of the visitors and multiplier of the economy. Economic impact created by tourism depends upon the number of tourists and their spending habits. In the year 2014, 1289.28 million tourists visited the country including 1281.60 million domestic and 7.68 million foreign tourists. The average spending of the tourists was \$. 42.23 Per day. The multiplier effect of tourism in India is found to be 3.2 (Sharma, 2014). This value indicates that every rupee investment in the tourism sector will lead to more than three times of revenue generation. So the economic impact created in the country in the year 2014 was

Economic Impact by

$$\begin{aligned} \text{Total Tourists} &= 1289.28 \text{ million} \times \$ . 42.23 \times 3.2 \\ &= \$173374123 \text{ million} \end{aligned}$$

Economic Impact by

$$\begin{aligned} \text{Domestic Tourists} &= 1281.60 \text{ million} \times \$ . 42.23 \times 3.2 \\ &= \$173190.298 \text{ million} \end{aligned}$$

Economic Impact by

$$\begin{aligned} \text{Foreign Tourists} &= 7.68 \text{ million} \times \$ . 42.23 \times 3.2 \\ &= \$1037.84 \text{ million} \end{aligned}$$

Now we can briefly summarise the results as:

Visits by 1289.28 million persons to the country in 2014 (including both the foreign and domestic visits) resulted in Rs. 2478.2 billion to the country's GDP. An average party spent \$42.23 per day in the area during their stay. Seventy-two percent of the spending was captured by the local economy as local final demand. Each dollar of direct sales added more than 3 dollars in secondary effects. Including these multiplier effects, visitor exports added Rs. 1224.4 billion in income to the regional economy and supported over 36695 billion jobs. The study measures economic activity associated with visits to the country. So the total economic impact in the economy as a result of tourism was \$173374123 million. We can divide these impact into two according to the nature of the tourists that is whether foreign or domestic. Then we get the economic impact by the domestic visit as \$173190.298 million and by the foreign visit as \$1037.84 million.

## CONCLUSION

Thus to conclude, we can say that Indian tourism has a vast potential for generating employment and foreign exchange earnings. Since it is a multi-dimensional and service oriented industry all divisions of the Central and State governments, private sector and voluntary organizations become active partners in the attempt to attain sustainable growth in tourism of the country. The total number of foreign tourist arrivals in the country has augmented several times. It showed an increasing trend except few years during the study period. It denotes that the Indian government is giving attention both on the development of the tourism and linked almost all the known tourist spots by road, railway and civil aviation. The foreign exchange earnings of the country through tourism has increased more than seven times from 2000 to 2014. It proves that the economical, political and social amity has positive impact on the arrival and receipts of the tourist industry in countries.

\* This article is prepared by Mrs. O. Shiji, in connection with her PhD research work (funded by UGC-JRF) in University of Calicut under the guidance of Dr. D. Retnaraj.

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