

IMPACT OF TOURISM SECTOR ON ECONOMIC GROWTH: FUTURE SURVIVAL AND SUSTAINABILITY

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ABSTRACT

As the tourism industry is making a substantial contribution to economic growth, it is important to understand the relationship between economic growth and tourism sector earnings. The primary objective of this research study is to establish the relationship between economic growth, FTA (Foreign Tourist Arrivals) and FEE (Foreign Exchange Earnings). The study has also identified the impact of FTA and FEE on the country's GDP. Data period for the study has been taken from 2001 to 2019, and SPSS 20 has been used for data analysis. This study has also explored the current challenges of the tourism industry. The study has found GDP, FTA and FEE have a strong positive correlation. FEE has shown a significant relationship with GDP while FTA is insignificant. Findings of the study imply that strategically revival of this sector can significantly contribute to the economic growth of the country.

Keywords: *Tourism, Gross Domestic Product (GDP), COVID, FTA, FEE.*

Introduction

National tourism day is celebrated on 25th January while World tourism days is celebrated on 27th September. To make people aware and informed and promote tourism domestically and worldwide about tourism these days are celebrated. Tourism Industry is one of the worst-hit due to the COVID 19 pandemic. This crisis is one of more significant crisis than previous crisis like- dot com crisis, severe acute respiratory syndrome, 9/11 attacks, and global financial crisis. This uninvited crisis is going to hit the economic health of the country for a longer time. Tourism has significantly contributed to the economic growth of the country from the last two decades. Domestically and internationally, tourism has contributed considerably to economic development. The tourism industry is one of the fast-growing sector worldwide. The tourism industry has contributed \$268.29 billion in the country's Gross Domestic Product (GDP) equivalent to 10.42% of GDP in the year 2019. India's Prime Minister Narendra Modi has allocated the same amount (10% of GDP) under Atma Nirbahr Bharat for revival of various sector of India. Despite having a huge contribution to the country's GDP, the government has not announced any relief package to protect the tourism industry from COVID pandemic. UNWTO in 2019 has predicted that the tourism industry is expected

to reach at \$512 billion in 2029. But after COVID outbreak the situation has changed. India is a land of diversity; diversity of religion, culture, language, weathers and foods. To explore this diversity, people from domestic and international places come and explore India. India is one of the favourite tourism destinations worldwide. Despite the fact that various critical issues in the history of tourism have never come down, it always flourishes. Corona pandemic is one of the biggest crisis across the world and economically affected every sector worldwide. At present service, the industry is severely hit by the corona crisis. Millions of people worldwide lost their jobs and come to hand to mouth situation.

Tourism in Indian Context

In the Indian economy, travel and tourism is the more significant part of the service sector and an essential source of foreign exchange. India is one of the favourite destinations stops for tourist. Over ten years, tourist arrival from different countries of the world has increased. In the year 2010, 5.78 million customers have visited India, and this number doubled in 2018 with 10.56 million tourists. Foreign exchange earnings from tourism have been increased from 14.19 billion USD to 28.56 billion USD from 2010- 2018. T&T has contributed to 10.42 % in the country's GDP. The share of the industry is big in the economic growth of India. The tourism sector in India is flourishing due

to increase in foreign exchange earnings due to foreign tourist and number of Indian visiting to a domestic destination. Out of the top 20 economies bigger contribution to travel and tourism GDP, India is on 10th number. India is not able to secure its place in the fastest growing top 20 economies contribution to travel and tourism GDP.

Tourism in International context

In the year 2019, the World Travel and Tourism Council (WTCC) has prepared a report to present the status of the economic and employment impact of the travel and tourism industry worldwide. The study has considered 185 countries and 25 geographic regions of the world. This report scans the performance of worldwide travel and tourism sectors. It helps the government and policymakers to provide a conducive environment and friendly policy in favour of the sector. Worldwide this sector has contributed \$8.9 trillion US (10.3%) to the world GDP. This sector has generated 330 million jobs and contributes to economic growth. Out of 10 jobs, one job has been generated by this sector. This sector has attracted \$948 billion US capital investment and contributes 4.3% of total investment. Travel and tourism industry has contributed to 3.5% to GDP growth as compared to 2.5% of global GDP growth (WTCC, 2019).

The above part shows that tourism has an important role in the development of the country by providing employment opportunities, support to allied industries and contribution in the GDP. This shows the relevance of the study in the Indian context to explore the impact of tourism on the economic growth of the country.

The outline of the study is like this: part 2 is presenting the brief literature related to the contribution of the tourism sector in the economic growth of the country. Part 3 is describing the main objectives of the study; part 4 is about research methodology and data source; part 5 & 6 presents the data analysis & discussion and strategies for future survival and sustainability of the tourism industry, and finally, section 7 concludes the study.

Literature Review

Tourism Industry has changed a lot since its inception. Along with tourism, a lot of allied activities are also growing simultaneously to boost the tourism sector. The tourism industry is working in a competitive environment, and to sustain in that environment, they have to perform better. Performance in term of service provided, service improvement, feel-good factor and value for the money. Literature in the tourism industry is widely available. This section presents the literature related to the study.

Fick and Brent Ritchie (1991) have measured the service quality of tourism sector on various parameters of SERVQUAL model. Weaver, Lawton, De Lacy and Tourism (1999) have talked about the sustainable tourism. Authors have talked about the sustainability of tourism sector in terms of environment, economic and social factors.

Hassan (2000) has introduced a new model of competitiveness to promote environmentally sustained tourism. The author has focussed on market lined sustainable factors to promote sustainable tourism.

Ivanov and Webster (2007) have presented a standard methodology to measure the contribution of tourism in the economic growth of the country. Author has applied the standard methodology on three countries data Cyprus, Greece and Spain. The tourism-led economic growth hypothesis was verified by applying tests of causality. In Turkey, Tosun (1999), Guduz, and Hatemi (2005) and Zortuk (2009) also found empirical support for the growth hypothesis underpinned by tourism. Durbarry (2002) also provides evidence of tourism-led economic growth through the use of the Mauritius cointegration and causality tests.

Kaplan and Çelik (2008) have examined the relationship between tourism expansion and economic performance by using Granger causality test. The study found that the tourism industry has exceeded the threshold level and substantially contributes to economic performance.

Aldebert, Dang & Longhi (2011) have discusses about the innovation at tourism industry in Europe. Tourism industry has conducted Tourism@events an important trade fair that brings together major actors of tourism

industry. Start up companies, small and medium size tech companies large multinationals and academic institutions participate and present their innovative ideas at the events. Innovation is an important part of services in tourism industry (Miles, 2001; Hjalager, 2002). Similarly Information technology also plays a great part in the expansion of tourism industry (Longhi, 2009; Marcussen, 2009; Werthner & Klein, 2005).

Ghosh (2011) used an autoregressive distributed lag (ARDL) model to examine the co-integration between numbers of international tourist arrivals and economic growth over the period 1980 to 2006. Vellas (2011) has examined the impact of indirect tourism on growth and employment of the country. The author has used standard methodologies and data developed at the global level by UNWTO and TSA.

Fayissa, Nsiah and Tadasse (2008) have investigated the potential contribution of the sector in the economic growth of Africa for the duration of 1995-2004. The author has found a significant contribution of the receipt from the tourism sector on the GDP of Africa. Chen, and Chiou-Wei, (2009) have explored the causal relationship between tourism expansion in two Asian countries: Taiwan and South Korea, and economic development. To examine the direction of causality between tourism expansion and economic growth, as well as the impulse impacts of uncertainty on both variables, an EGARCH-M model with uncertain factors is employed. The findings suggest that Taiwan supports the tourism-led economic growth hypothesis while South Korea sees a reciprocal causal link. Mishra, Rout and Mohapatra (2011) have examined the dynamics of tourism sector expansion and economic growth in India. Time series models have been adopted in a data period of 1978-2009. Iran is among the top ten countries in the world in terms of tourism attractions, Lashkarizadeh, Keshmir, Gashti and Rafat (2012) have analysed the relationship between tourism industry and economic growth in Iran during the years 1980-2009 using standard Granger causality test as well as error correction model. The variable gross domestic product was used as an indicator of economic growth, and the number of visitors was used as

the variable of substitution of the tourism industry. Finally, research findings suggest that there is a reciprocal causality relationship between tourism industry and economic growth in Iran, and the long-term support for such relationship between these two variables.

Rao (2014) has examined various emerging trends in tourism and hospitality industry. The study has tried to bring the attention of the government to develop the unexplored site in India as a tourism destination and to develop sustainable tourism. Standing, Tang-Taye and Boyer (2014) have presented a systematic review of 10 years of studies in the tourism sector with the importance of the role of information technology. Tang, Tiwari, and Shahbaz (2016) linked international tourist arrivals for India covering the period from 1971 to 2012, with energy consumption and economic growth nexus. Their results demonstrated a feedback-type relationship between international tourist arrivals and Indian economic growth. Ohlan (2017) has focussed on economic growth and financial development in India. Sofronov (2018) has presented the world eye view of the travel and tourism industry. The author has acclaimed the contribution of travel and tourism industry in the economic growth of the nation. The author has not used any statistical tools to claim the contribution of tourism on economic growth.

From the literature review it is at least assumed that developed countries have started to find tourism as a significant and integral part of their economic growth and development strategies. In this context it is worth noting that in the case of India the literature (Ghosh, 2011; Tang et. Al.;2016; Ohlan, 2017; Rao, 2014) has focussed on economic growth and development of tourism sector. The present study has considered FTA and FEE which has not taken in previous studies. So this study is contributing the impact of FTA and FEE on the GDP of the India. Study has also considered the present corona pandemic and tried to analyse the present scenario for future survival and sustainability of tourism industry. This research study actually under way is an attempt to bridge that gap in research.

Objective

The primary objective of the study is to establish the relationship between economic growth, FTA and FEE. The study has also identified the impact of FTA and FEE on the economic growth of the country. The research has also identified the current challenges due to corona pandemic.

Research Methodology

The study is based on secondary annual data. Correlation analysis has been conducted to examine the relationship between the country’s GDP, FTA and FEE. The regression analysis has been conducted to analyse the impact of FEE and FTA on GDP. Real gross domestic product data has been taken from the world bank website. The time period for the study has been considered 2000-2019. For tourism sector data, the author has explored WTCC, Statista, government website of tourism (tourism.gov), Economic Impact Report (EIR) of WTCC and Ministry of Statistics and Programme Implementation (MOSPI). All the assumptions of the regression model have been satisfied before the analysis. The regression model is-

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \mu$$

Where, Y= Country’s GDP

X1=FEE (Foreign Exchange Earnings in Million USD)

X2=FTA (Foreign tourist arrivals in Millions)

Hypothesis Formulation

H1: FTA has no impact on country’s economic growth.

H2: FEE has no impact on country’s economic growth

Data analysis and discussion

All the assumption of data analysis has been checked before running correlation and regression. Table 1 shows the descriptive statistics of the data. Table 2 shows the correlation between the variable. Minimum correlation between the variable must be .3 for the regression analysis. Variables have a strong positive correlation among the variable. Normality test of data has been checked by Jarque-Bera test. Descriptive statistics show the average value and standard deviation of the data.

Assumption for data analysis

1. Data should follow normality. Data has checked by Jarque-Bera test. Null Hypothesis for J-B test is data is following normality. Table 1 shows that the probability value for J-B test is more than 5% and null hypothesis is accepted.
2. Minimum correlation should be 0.3 among the variable. Table 2 shows that correlation is strong among the variable.
3. There is no multicollinearity in the data. For checking multicollinearity VIF (Variance Inflation factor has been used and its value should be more than one. In the table 2 VIF value of each variable is more than one, so no sign of multicollinearity.
4. Autocorrelation in the error has been checked by Durbin-Watson test. Test value should be near to 2 for the absence of autocorrelation. Table 4 shows that the D-W statistics is near to 2.

	GDP	FEE (\$US Million)	FTA (Million)
Mean	1430227.68	14934.47	6.15
Std. Deviation	729439.96	8459.48	2.69
Jarque-Bera	0.659	2.29	0.35
Probability	0.719	0.316	0.83
Number of Obs.	19	19	19

Source: SPSS 20

Table 2 is showing that all the variables have a strong positive correlation. A positive correlation is the pre-requirement of a

regression model. FEE has .79 correlations with GDP while FTA has .87 correlations with GDP.

		GDP	FEE (\$US Million)	FTA (Million)
GDP	Pearson Correlation	1	.790**	.779**
	Sig. (2-tailed)		.000	.000
	N	19	19	19
FEE (\$US Million)	Pearson Correlation	.790**	1	.794**
	Sig. (2-tailed)	.000		.000
	N	19	19	19
FTA (Million)	Pearson Correlation	.879**	.894**	1
	Sig. (2-tailed)	.000	.000	
	N	19	19	19
VIF Value		2.65	1.34	2.43

Source: SPSS 20 ** significant at 1% Level of Significance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	307626.478	127955.318		2.404	.029
	FEE (\$US Million)	119.167	26.385	1.382	4.516	.000
	FTA (Million)	-106735.566	82737.106	-.395	-1.290	.215

a. Dependent Variable: GDP, Source: SPSS 20 , significant at 5% level of significance

Table4: Model Summary of Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.791 ^a	.881	.879	1053.709	1.900

a. Predictors: (Constant), FTA (Million), FEE (\$US Million), b. Dependent Variable: GDP

Table 4 present the model summary of the regression. R values show the correlation among the variable and variables have a strong positive correlation. R square present the variation explained by FTA and FEE for GDP. FTA and FEE explain 88 % of the variation in GDP. Rest of the variation in the GDP due to other factors. R square value shows the model is a good fit.

Table 4 shows the regression coefficient of the regression model. This table has also used for hypothesis testing. FTA has a significant relationship with GDP. Hypothesis H1 has been rejected because p-value is less than 5%. FEE has a significant relationship with GDP. Hypothesis H2 has been accepted because the p-value is more than 5%. The analysis shows that FEE is a significant contributor to the economic growth.

Future survival and sustainability of tourism industry in Present Scenario:

Corona crisis has badly impacted the travel and the tourism industry. Worldwide unprecedentedly 100.8 million jobs will be lost. As a result, GDP will also shrink to \$2.7 million US approximate 30% down than the year 2019. WTCC has estimated that this crisis is five times more worst than the 2008 global financial crisis. Table 5 present the employee contribution in India due to the tourism sector. The sector is significantly contributing to the employment of the country by employing more than 12% population of India. Out of the total employment generated in the year 2019, 12.40% has contributed by travel and tourism sector. The year-wise analysis shows that industry has provided more of indirect employment rather than direct employment.

Table 5: Employment distribution in travel and tourism in India

Year	Direct Employment	Indirect Employment	Total Employment
2014	5.19%	6.71%	11.9%
2015	5.27%	6.82%	12.09%
2016	5.4%	6.98%	12.38%
2017	5.32%	6.87%	12.19%
2018	5.4%	6.44%	11.84%
2019	5.6%	6.80%	12.40%

Source: WTCC (2019)

The table 5 shows that the travel and tourism industry has a substantial contribution to the employment and GDP of the country. It is the need of the hour for the policymakers, researchers, stakeholders to think about the survival and revival of this industry. How this industry will survive in the future is a major concern. This study is suggesting some measures for the future sustainability of the industry. The government must provide some relaxation and relief in the delaying working capital loan, overdraft and other interest payments. Deferment in the payment of GST and other taxes to the government. Financial package to support the salary and other expenses of the industry. Lending to the tourism sector should come under priority sector lending. Lending to the tourism sector must be backed by credit guaranteed fund of the government. The government must assign a committee to take care of this sector. These are few measures which require immediate actions.

Conclusion

The tourism industry is playing a very important role in the economic growth of the country by providing 12.40% in total employment of the country and 10.42% contribution to the GDP of the country. The

objective of this study is to analyse the contribution of the tourism sector in the economic growth of the country. The study has used correlation and regression as a statistical tool to establish the relationship between the variable and identify the impact of FTA and FEE on GDP. The study has found a positive relationship between the GDP & FTA and GDP & FEE. The study also finds that FEE has a significant impact on the economic growth of the country, while FTA has no impact as the industry is significantly contributing to the economic development of the country. Future survival and sustainability should be the main concern of the government, policymakers and the stakeholders. The government must allocate some relief measure for the future sustainability of the industry.

The limitation of this study is that it has mainly focussed on FEE and FTA contribution to economic growth. There could be some other significant contributor like domestic tourism contribution to economic growth. The author will undertake these variables in the future course of study. In the future author can also use causality relationship between the variables.

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