

# UNIT 33 ECONOMIC IMPACT

## Structure

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## 33.0 OBJECTIVES

Tourism has been recognised as an instrument of economic and social development. After reading this Unit you will be able to:

- explain the economic impact of tourism on a destination,
- understand its role in the creation of jobs and generation of income, development of new areas and foreign exchange earnings,
- identify the leakages in economy, and
- know who benefits from tourism.

## 33.1 INTRODUCTION

Tourism has been traditionally viewed as a great force in promoting understanding among nations and, within the national boundaries, facilitating emotional integration. But its economic importance is less commonly understood. It is only in recent years, in particular the latter half of the 20th century, that tourism has been accepted as an important catalyst for economic development. It is in terms of its contribution to employment generation, foreign exchange earnings, incomes generation and output growth that tourism has significant impact on our economy. It is because of this significance that tourism got the status of an industry in the 7th Five Year Plan (1985-90). This Unit takes into account the economic impact of tourism. The areas discussed are; employment, income, foreign exchange earnings, investment and development. All these aspects have been dealt with critically. Besides the positive impact on the economy, the Unit also discusses the criticism offered by tourism activities regarding the negative impact on the economy.

## 33.2 EMPLOYMENT

In assessing the economic impact of tourism, let us first turn to employment. The Government of India's **National Action Plan** for tourism mentions that during 1989-90 the tourism industry in India generated direct employment of 5.5 million persons and another 8 million who were employed indirectly. Further the projection is that employment opportunities should be at least double the present level by 2000 AD. Tourism industry has tremendous capacity to create both, direct and indirect employment. Starting from hotels to various tour operators, tourist offices, transport operators, tourist guides, etc. it provides direct employment to various categories of people. If we proceed to take into account the indirect employment generation through tourism, as for example the people who are supplying vegetables, meat, fish, poultry, cereals, etc. to the hotels, the electricians, plumbers, furnishers and furniture repairers, in fact all those who are providing ancillary services to the hotel customers, like taxi drivers, etc. then, we realise the enormous ramifications of the indirect employment creation process through tourism related activities. Another dimension is the shops and emporiums selling handicrafts, handlooms and thus providing marketing outlets to thousands of craftsmen, artisans, weavers, etc. It is suggested that the ratio between investment and job creation is much higher in tourism-related activities than in the case of manufacturing. According to a study of the

**Institute of Public Opinion**, in 1980, over 6 million people were employed only in the hotels approved by the Department of Tourism, Government of India. Employment was reported to have grown by 11% in the tourism sector in the last two years of the 6th Plan and in the 7th Plan.

It is relevant to explain in this context that many of the jobs are being created by tourism in areas where there would be few alternative employment opportunities. Take for example most of the hill stations. In all these tourist places many families are dependent for their livelihood mainly on tourism. Local hotels, restaurants, transport, shops all provide direct job avenues to the local people. People engaged in tourism industry and their families require their own goods, services, education and so on which further indirectly create employment in shops, schools, hospitals, etc. Thus, tourism provides a vast spectrum of employment from highly trained managers in five star hotels to room bearers, transport workers, artisans, etc. With fast growth of tourism new horizons open up for unemployed or partially employed young men and women. The following Table 1 shows the employment pattern generated in different segments because of foreign and domestic tourists.

**TABLE I—ESTIMATES OF EMPLOYMENT DUE TO TOURISM — 1989-90\***

Sl. No.	Segments	Employment		
		Foreign Tourists	Domestic Tourists	All Tourists
1.	Hotels and restaurants	471,370	463,159	934,499
2.	Railway transport services	21,819	88,787	110,606
3.	Transport services	54,900	222,326	277,226
4.	Shopping	423,980	617,991	1,041,971
4.1	Food and beverages	31,189	0	31,189
4.2	Wood silk Synthetic fibre apparel	17,318	54,823	72,141
4.3	Textile products including wearing apparel	132,681	195,365	328,046
4.4	Wood and wood products except furniture	92,895	115,779	208,674
4.5	Leather and leather products	11,061	25,470	36,531
4.6	Metal products except machinery and transport equipment	3,659	4,519	8,178
4.7	Miscellaneous manufacturing industries	90,407	158,185	248,592
4.8	Trade	44,770	63,850	108,620
5	Other services	191,359	96,647	288,006

\* Source: UN Report on The Economic Impact of Tourism on India

In spite of the argument in favour of jobs there are other aspects to be considered from the point of view of local population:

- Most of the jobs created by tourism are seasonal in nature. As a result the employers go for temporary recruitment or import labour force from outside during the season. This deprives the local residents from meaningful employment.
- At many destinations locals complain that their share of employment is limited to petty jobs as managerial jobs go to outsiders. The hotels, shops, restaurants, travel agencies, etc. are owned by outsiders. Thus, the earnings from tourism do not come to locals.
- The prices of many essential commodities go up as a result of tourism demand during the season. This adversely affects the local population.

Hence, while planning for tourism development these aspects also should be considered. Ignoring them would lead to tensions in the destination areas.

<b>Check Your Progress 1</b>
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1. What kind of direct and indirect employment is generated by tourism?

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2. Mention the important aspects of economic impact from the point of view of local population.

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### 33.3 INCOME

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The employment and income effects of tourism are very closely inter-related and follow a common source, namely, tourist expenditure. Income in general comes from wages and salaries, interest, rent and profits. Tourism gives rise to numerous demands for goods and services, as for example, accommodation, food and drinks, long distance and local transport, entertainment, shopping, guides for sight-seeing, etc. Not only does the tourist expenditure provide direct income to all these different services, but it also generates employment in hotels, restaurants, transport operators and workers, travel agents and their employees, owners of entertainment houses and those who work there e.g. bearers, artists and many other like craftsmen and souvenir makers. The extent to which direct employment and income is generated in each of these services depends on the:

- volume of tourist traffic,
- amount of tourist expenditure, and
- pattern of their spending

Tourism also generates an immense volume of indirect employment and income with a multiple effect. Apart from the first recipient of the tourist money, there are many others who become beneficiaries. Although often, as and when the money changes hands, its size gets reduced because several successive recipients retain a part of it for whatever services they provide and pass on the balance to the others. If we are to take into account the demand for goods and services being generated by those who receive gainful employment through tourism, that will open up yet another dimension. The additional consumption demand arising indirectly out of tourism will generate more employment and income and once again generate a further multiplier effect through a chain of transactions. Let us use an example to illustrate the multiplier effect. Tourists visit Kashmir and spend Rs. 2,00,000 in hotels and other amenities. This is received as income by hoteliers and amenity owners. Hoteliers and amenity owners pay tax, save some of their income and spend the rest. Some of what they spend goes to shopkeepers, suppliers and other producers in Kashmir. They in turn pay taxes, save and spend. The original sum of Rs. 2,00,000 spent by tourists in Kashmir is thus circulating among different people and in each circle it generates income and adds to the original sum.

However, one must understand that the multiplier effect will be greater if the Tourism Industry buys goods or services from local market sectors. If the tendency is to import goods and services, the multiplier decreases. It is worth noting here that both the central and the state governments earn revenue through various taxes, octroi and entry fee, etc.

## 33.4 FOREIGN EXCHANGE EARNINGS

Tourism, in recent years, has emerged as one of the largest foreign exchange earning economic activity in India. Tourist arrivals went up from 836908 at the beginning of the Seventh Plan in 1985 to 18,67,651 in 1992. Foreign exchange earnings also spectacularly went up from Rs. 1800 crores in 1985 to Rs. 3916 crores in 1992.

The computation of foreign exchange earnings from tourism is made by the RBI as part of its exercise to collect balance of payments statistics. (See Unit 7 Block 2) RBI collects the travel receipts data from the returns submitted by the authorised dealers in foreign exchange. The estimates of the RBI are usually available after a two year gap. The Department of Tourism, Government of India works out quick estimates every year by multiplying the number of tourist arrival every year by the estimated per capita expenditure of a foreign tourist. The annual rate of growth in earning from tourism in 1991-92 was 16.5 per cent as against 12.7 per cent in the world tourism growth rate. According to the United Nations report on **The Economic Impact of Tourism on India** it has been noticed that the tourism receipt in dollar terms has declined even when there has been an increase in "tourist arrivals". The possible reasons for such a phenomenon are:

- high rate of devaluation of Rupee in the recent past,
- rise in the proportion of budget tourists, and
- leakage of money into black market due to the existence of a premium for foreign currency, etc.

At the same time, while calculating the foreign exchange earnings from tourism a country must take into account the imports made for tourism development. Otherwise the earnings will be overstated and far from actual figures. Out of the gross earnings the leakage has to be subtracted to have the real figures.

The value of goods or services imported to meet the tourism needs is termed as leakage.

The more the leakage the less is foreign exchange earning and less leakage means more foreign exchange earnings. We must look into the factors responsible for leakage:

- Costs incurred to import goods and material for infrastructure like air conditioned coaches, planes, airport equipment, etc.
- Foreign exchange spent on publicity, promotions, setting of Tourist Offices abroad etc.
- Entry of multinationals reduces profits and taxes in the host country since payments are made in tourist origin countries,
- Commissions paid by tour operators etc to foreign retailers, and
- Reduction in or exemption of duties and taxes by host countries on foreign companies, etc.

Hence, an increase in foreign exchange earning can be ensured by checking leakages. This depends on the types and forms of tourism promoted and for which budget categories. The governments of the Third World countries have to devise strategies for minimizing the leakages. These could be:

- in the areas of "import substitution" through the use of local resources,
- restricting the control of multinationals, and
- introducing controls like tourists being required to pay hotel bills, buy things etc in foreign currency only, etc.

An important benefit of foreign tourism is the promotion of international trade. Foreign tourists purchase a number of items like jewellery and gems, carpets, textiles, handicrafts and leather goods. These foreign tourists also become a source of effective publicity for those items in their respective countries. This induces further the demand of these items and improves exports. The excellent quality of Indian handicrafts and its exposure to the world through foreign tourism are largely responsible for the high export performance of this sector.

**Check Your Progress 2**

1. Mention the leakages in tourism in relation to foreign exchange earnings.

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2. What do you understand by multiplier effect in tourism?

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**33.5 LET US SUM UP**

After reading this Unit you have now understood that how the promotion of tourism can be a very good tool in a developing nation's economic development strategy. Properly conceived and subject to appropriate policy safeguard, tourism can give a boost to economic development through creating new jobs and income opportunities, through the earning of significant volume of foreign exchange, through infrastructure improvements in backward areas, and through the general opening up of closed regions to a certain degree of international exposure. Tourism need not, therefore, be viewed any longer as a peripheral luxury-oriented activity. It is an important tool for economic development like exports or industry. However, **the interests of the host population must be taken care of in this process of development.**

**33.6 ANSWERS TO CHECK YOUR PROGRESS EXERCISES**

**Check Your Progress 1**

1. Base your answer on Sec. 33.2 taking into account employment in airlines, hotels, shops, restaurants, entertainment etc.
2. The last paragraphs of Sec. 33.2 mention some of these.

**Check Your Progress 2**

1. Foreign exchange spent on importing goods and services; publicity and promotions abroad etc. See Sec. 33.4.
2. See Sec. 33.3.