



TOURISM: A PROSPECTIVE SOURCE OF FOREX

Sultan Ahmad¹

¹Research Scholar, Department of Applied Economics, University of Lucknow, U.P, India

Sameena Bano²

²Assistant professor, Lucknow Degree College, Lucknow, U.P, India

Dr. Dilshad Ahmad Ansari³

³Assistant Professor, Faculty of Commerce, A. Islamia Degree College, Lucknow, U.P, India

ABSTRACT

Tourism is an important economic activity for most of the countries and one of the largest and fastest growing economic sectors globally. It has a very significant impact on the industries and FOREX of the countries. Tourism has played a very important role in the expansion of industrial production, generation of employment and FOREX collection.

Most of the developing economies have a common problem i.e CAD. In 2013-14 India recorded 1877.5 Rupees billion deficit in its current account and the merchandise transaction of India which is a part of current account transactions are countenously showing the deficit year by year and in 2013-14 the merchandise deficit was 8848.44 Rupees billion and the second part of current account i.e Invisibles are recorded a surplus in year by year in 2013-14 the surplus of invisibles of India was 6970.94 rupees billion. The invisible transaction includes receipts and payments from the services sector and unilateral transfers. The services sector includes transportation, tourism, professional and other services, interest and other investment income. The tourism and travels earning of India in 2013-14 was 17922 U\$ million which is approximately 8% of total receipt of total earning from invisible accounts. The earning from tourism are a prospective source of FOREX for India and recorded increasing figures it serves a tool for controlling CAD.

KEY WORDS: CAD, Merchandise Transaction, Invisible, FOREX.

INTRODUCTION

Tourism sector is identified as a major services sector of the world. It is working as a powerful agent for both economic and social changes and it play a very important role to control balance of payment transactions, generating employment and foreign investment in the country. This sector has a capacity to create large scale employment especially for the unskilled workers in both direct and indirect from.

Swiss Professor Walter Hunziker and Kurt Krapf (1994), describe the concept of tourism "Tourism is the sum of phenomena and relationship arising from the travel and stay of non- residents, in so far as they do not lead to permanent residence and are not connected with any earning activity.

Tourism has a wide range of dynamic impact on the economic conditions of the country. Tourism development enhances the business environment especially small business enterprises and has a positive impact of the national income, employment and production of the country. Tourism is a part of current account of the balance of payment in the head of "invisibles". In most of the developing nation a common problem is CAD which has a negative impact on the national income and foreign exchange rate of the country if we analysis the balance of payment of India we find that the current account of balance of payment of India has a continuous deficit and the reason of this deficit is



Merchandise Transaction of the country. Means the demand for import of goods are greater than demand for import of services from rest of the world. In 2013-14 India recorded 1877.5 Rupees billion deficit in its current account and the merchandise transaction of India which is a part of current account transactions are countenously showing the deficit year by year and in 2013-14 the merchandise deficit was 8848.44 Rupees billion and the second part of current account i.e Invisibles are recorded a surplus in year by year in 2013-14 the surplus of invisibles of India was 6970.94 rupees billion. The invisible transaction includes receipts and payments from the services sector and unilateral transfers. The services sector includes transportation, tourism, professional and other services, interest and other investment income. The tourism and travels earning of India in 2013-14 was 17922 U\$ million which is approximately 8% of total receipt of total earning from invisible accounts. The earning from tourism are a prospective source of FOREX for India and recorded increasing figures it serves a tool for controlling CAD.

The actual development of the tourism in India started after 1980s and in this period the tourism sectors included in the service sector industries of the country the first policy of tourism are passed by the government in November 1982 for the development and motivating tourism in the country. The objective of the first tourism policy of 1982 is as follows:

- Becomes a unifying force nationally and internationally fostering a better understanding.
- Help preserving Indian Heritage and culture and projecting the same to the world
- Brings socio-economic benefits in terms of employment, income generation, revenue generation, foreign exchange etc.
- Gives direction and opportunity to the youth of the country to understand the aspirations and view point of others and helps in developing national integration.
- Offers opportunities to the youth of the country, not only for employment but also for taking up activities for nation-building and character-building like sports, adventure activities etc.

In 1992 a national action plan passed for removing the problem of tourism in the country and enhancing the tourism sector with the following objectives:

- Improvement of tourism infrastructure.
- Developing areas on a selective basis for integrated growth along with marketing of destinations to ensure optimal use of existing infrastructure.

- Restructuring and strengthening of the institutions for development of human resources.
- Evolving a suitable policy for increasing foreign tourist arrivals and foreign exchange earnings.

In this action plan the government cover all the points regarding the tourism development and growth in the country and also focus on the foreign exchange earnings from the tourism sector of the country.

In 2002 the government of India finally announced the new tourism policy for the country with centre state colorations. It suggested that tourism not only generates government revenue, foreign currency, but also provides an optimal use of India's scarce resources, sustainable development, high quality employment (especially to youngsters, women and disabled people), and finally peace, understanding, national unity and stability. The policy aimed at increasing the number of domestic and international tourists. Further for the development of tourism the "Incredible India" a international marketing campaign was introduce and in 2009 "Atithi Devo Bhava" a new campaign was introduce for the domestic people attitude to understanding them that tourist is a face of God.

The people move from domestic country to other countries for the following reason:

- **Cultural Tourism:** India is the land of ancient history, heritages and culture. The culture of India is very popular in whole the world the tourists are attracted by the India's mixed culture. There are 23 official languages are recognised by the government and there are many religious and there old culture are exist in India such as Hinduism, Islam, Christianity, Sikhism, Buddhism, Jainism and others.
- **Heritage Tourism:** India's is a place of heritages in the various temples, palaces, monuments, and forts that can be found everywhere in the country. This has led to the increase in India's heritage tourism. The most popular heritage tourism destinations in India are: Taj Mahal in Agra, Mandawa castle in Rajasthan, Mahabalipuram in Tamil Nadu, Madurai in Tamil Nadu, Lucknow in Uttar Pradesh, Delhi, the Indian capital.
- **Business Tourism:** due to demographic characteristics the demand of goods and services in India is very high and this attract foreign investors to come in India for the investment in the form of FDI and the policy of Indian government regarding business is also very good

for the FDI there are many programme are running for attracting the foreign investors in India such as Make in India policy and most of the requirement of India are fulfilled by the import of goods and services due to this the foreign tourist come in India time to time.

- **Education Tourism:** India is the one of the best education place in the Asia region there are many student come to India for seeking higher, technical education and medical education in India. Ayurveda and Unani medical education of India is very popular in whole the world.
- **Medical Tourism:** medical tourism is one of the fastest growing forms of international tourism. This form of tourism involves people who travel to a different place to pursue activities that maintain or enhance their personal health and medical facilities, and who are seeking unique, authentic or location-based experiences. Medical tourism include massages, body treatments, facial treatments, exercise

facilities & programs, weight loss programs, nutrition programs, pre- and post-operative Spa treatments and mind/body programs.

OBJECTIVES OF THE STUDY

These are the following objectives of this research

1. To analysis the current performance of tourism industry in India as a service sector industry.
2. To analysis the foreign exchange earning of India from the foreign tourist and its impact on balance of payment of India.
3. To evaluate the earning from tourism in the head of invisible account in current account of the country.

RESEARCH METHODOLOGY

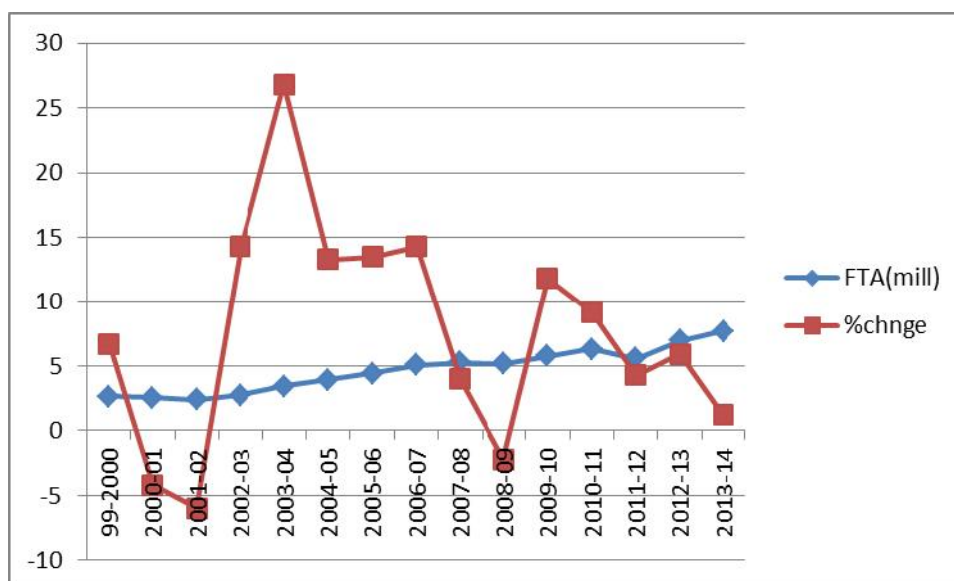
The study will be fully based on secondary data which will be collected from Ministry of Tourism Reserve Bank of India (RBI), Economic Survey, Ministry of Commerce, and Ministry of Finance. In this study last 20 year data will be analysis to find the impact of tourism income on various macro economics component of the country.

Table-1, Foreign tourist arrival (FTA) in India

| Year | FTA IN India (million) | %of change over previous year |
|------|------------------------|-------------------------------|
| 2000 | 2.65 | 6.7 |
| 2001 | 2.54 | -4.2 |
| 2002 | 2.38 | -6.0 |
| 2003 | 2.73 | 14.3 |
| 2004 | 3.46 | 26.8 |
| 2005 | 3.92 | 13.3 |
| 2006 | 4.45 | 13.5 |
| 2007 | 5.08 | 14.3 |
| 2008 | 5.28 | 4. |
| 2009 | 5.17 | -2.2 |
| 2010 | 5.78 | 11.8 |
| 2011 | 6.31 | 9.2 |
| 2012 | 5.58 | 4.3 |
| 2013 | 6.97 | 5.9 |
| 2014 | 7.68 | 1.2 |

Source: Ministry of tourism of India 2015
Bureau of Immigration, govt. of India 1998-2015

Chart-1, Foreign Tourist Arrival In India



According to Government of India Ministry of Tourism (Press Note 2015):-

- ✦ During 2014, the number of foreign tourist visits (FTVs) to the States/ UTs was 22.57 million as compared to 19.95 million in 2013 and 18.26 million in 2012.
- ✦ During 2014, the number of FTVs to States/UTs registered a growth of 13.12% over 2013 as compared to a growth of 9.24% in 2013 over 2012.
- ✦ The top ten States in terms of number of FTVs (in millions) during 2014 were Tamil Nadu (4.66), Maharashtra (4.39), Uttar Pradesh (2.91), Delhi (2.32), Rajasthan (1.53), West Bengal (1.38), Kerala (0.92), Bihar (0.83), Karnataka (0.56) and Haryana (0.55).
- ✦ The contribution of top 10 States was about 88.8% to the total number of FTVs in the country during 2014.
- ✦ The top ten States in terms of FTVs in 2014, almost remained the same as those in 2013 except Goa which was at 10th position in 2013 got replaced by Haryana.

This data shows that the growth of foreign tourist in India is positive in most of the year and this is due the government policy of India tourist is considered the face of GOD in India and foreign tourist is attracted in India by its old traditions, mixed culture and the huge and old heritages the government of India ministry of Tourism are running many programme and policies for the development of tourism in India because the development of tourism in the less developed or developing economy have flowing positive impact:

- Contributes to income and standard of living.
- Improves local economy.
- Increases employment opportunities.
- Improves investment, development, and infrastructure spending.
- Increases tax revenues.
- Improves public utilities infrastructure.
- Improves transport infrastructure.
- Increases opportunities for shopping.
- Economic impact (direct, indirect, induced spending) is widespread in the community.
- Creates new business opportunities.

India is a developing economy and there are many economic problems in India such as low income, less growth rate, low employment opportunities, dependency on import, unfavourable balance of payment, less infrastructure facilities and proper transportation facilities. Growth of tourism are very helpful for eliminating these problem in India for this reason the government of India are looking for foreign tourist as well as foreign companies for Make In India policy.

FOREIGN EXCHANGE EARNING FROM TOURISM IN INDIA

Tourism is highly labour intensive industry of a unique type. It provides different services needed as well as expected by the incoming tourists. At the world's level, it is one of the largest in terms of money spent by tourists in the countries they visit. Foreign exchange means that the stock of foreign currency which a country have and in this stock the country those only those currency which are acceptable throughout the whole world like Dollar and Pound. Developing countries are manly depend on the

import of the capital products because in these type of countries they are very low in their manufacturing sectors due to abounded labour force the developing countries work on labour intensive production and the capital intensive product is imported by the developed nations so for the payment of import of goods and services

countries have a proper and adequate stock of foreign exchange which is helpful for making the payment of import of goods and services. In India most of the requirement of capital intensive product is fulfilled by the developed nations so for making these payment the foreign exchange reserve kept.

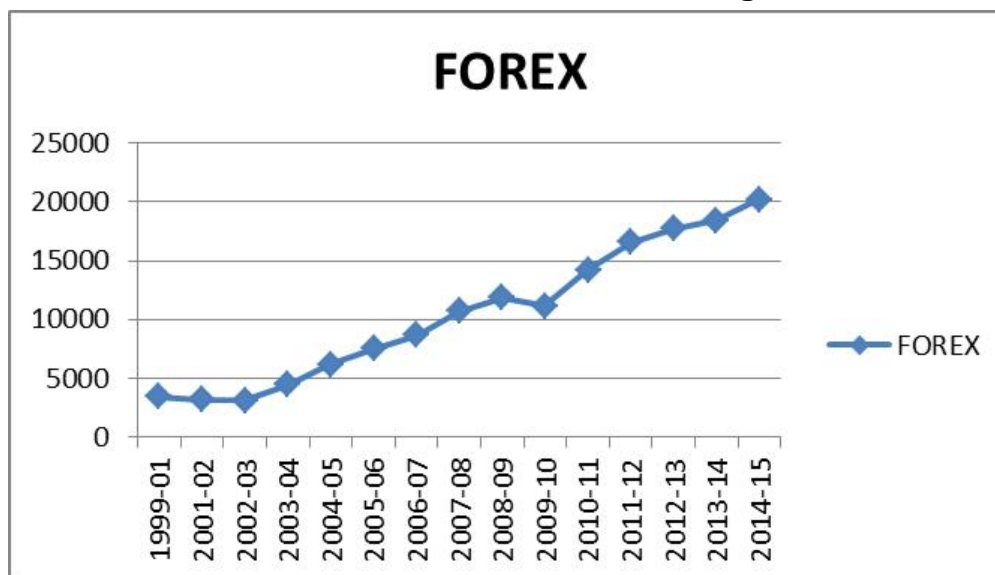
Table-2, Foreign Exchange Earning of India from 2000-2014

| Year | Foreign exchange Earning in USD (Million) | % of change over previous year |
|------|---|--------------------------------|
| 2000 | 3460 | 15 |
| 2001 | 3198 | -7.6 |
| 2002 | 3103 | -3.0 |
| 2003 | 4463 | 43.8 |
| 2004 | 6170 | 38.2 |
| 2005 | 7493 | 21.4 |
| 2006 | 8643 | 15.2 |
| 2007 | 10729 | 24.3 |
| 2008 | 11832 | 10.3 |
| 2009 | 11136 | -5.9 |
| 2010 | 14193 | 27.5 |
| 2011 | 16564 | 16.7 |
| 2012 | 17737 | 7.1 |
| 2013 | 18445 | 4.0 |
| 2014 | 20236 | 9.7 |

Sources: RBI 1998-2014

Ministry of tourism of India 2015

Chart-2, FOREX from the tourism earning of India



This data shows that the FOREX from the tourism earning of India is continuously increasing and expect three year ie 2001,2002 and 2009 the foreign exchange earning of India are recorded positive growth rate its shows that the number of foreign in India are increasing foreign tourist expend their money for using the hospitality facilities, transporatation and hotels. More the foreign trade more the numbers of tourist. The trade

realionmship of two countries also attract foreign tourist in the country becuse most of the tourist come for the business purosos and this provide FOREX to the country.

$$\text{Net Tourism Income} = \text{Total Tourism Industry Earnings} - (\text{Direct Tourism Expenditures} + \text{Background Expenditures} + \text{Spill-over Expenditures}) - (\text{Loss of Government Revenues due to Tourism Support Policies} +$$

The earning from torism are considered in the invisable account of current account of the country which is as follow

Table-3, Invisibles Trade (Rupees Billion)

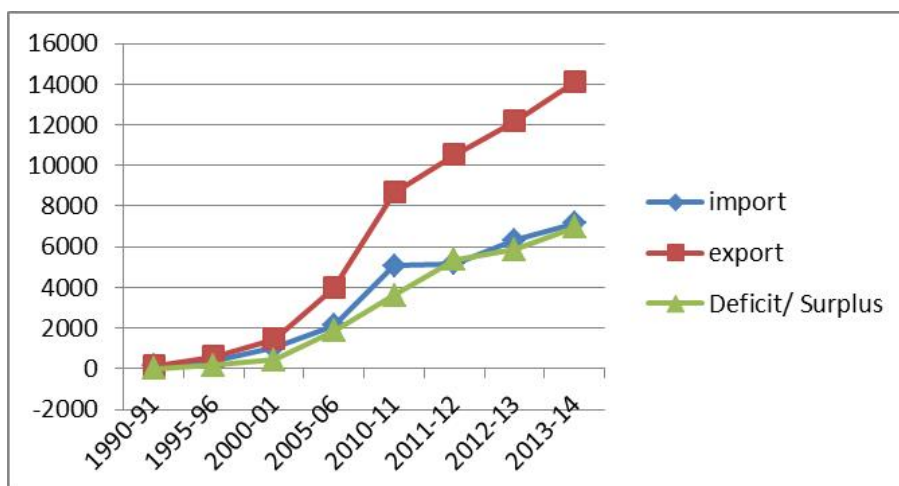
| year | Imports | Export | Surplus/Deficit |
|---------|---------|----------|-----------------|
| 1990-91 | 138.29 | 133.96 | -4.33 |
| 1995-96 | 410.88 | 594.43 | 183.55 |
| 2000-01 | 1026.39 | 1477.78 | 451.39 |
| 2005-06 | 2117.33 | 3976.6 | 1859.27 |
| 2010-11 | 5064.11 | 8672.28 | 3608.17 |
| 2011-12 | 5173.23 | 10534.8 | 5361.57 |
| 2012-13 | 6340.47 | 12188.93 | 5848.46 |
| 2013-14 | 7146.79 | 14117.73 | 6970.94 |

Source: RBI Handbook of Statistics 2013-2014.

In this table it is very amazing that expect 1990-91 the country is always in the surplus in the head means the earning from invisible is very good but it cant change the condition of the CAD because the deficit of CAD is very much greater than this surplus in 2013-2014 invisibles

also recorded a very high growth rate in 2011-12 it was 5361.57 Rupee billion and in 2012-13 5848.46 Rupee Billion which is higher than from 2011-12 with 486.89 but in the 2013-2014 it was suddenly change and recorded 6970.94 it is 1122.48 Rupee Billion surplus in 2013-14

Chart-3 Invisible trade



Invisible trade is a very important component of the current account transactions of the balance of payment. India is a developing country and the most of the requirement is fulfilled by the import and the import of goods are much higher than the export of goods the current account transactions are divided in two main component the merchandise trade and invisible trade India is continuously facing deficit in its merchandise trade and this deficit brings many problems for the economy such as fluctuating exchange rate, low

purchasing power of domestic currency in international market etc. This section includes receipts and payments from the services sector and unilateral transfers. The services sector includes transportation, tourism, professional and other services, interest and other investment income.

In this chart it is very clear shown that there are a very increasing growth rate recorded in the export of invisibles and have a surplus value starting from 1990-91 the growth rate was low but after 2005-2006 it become

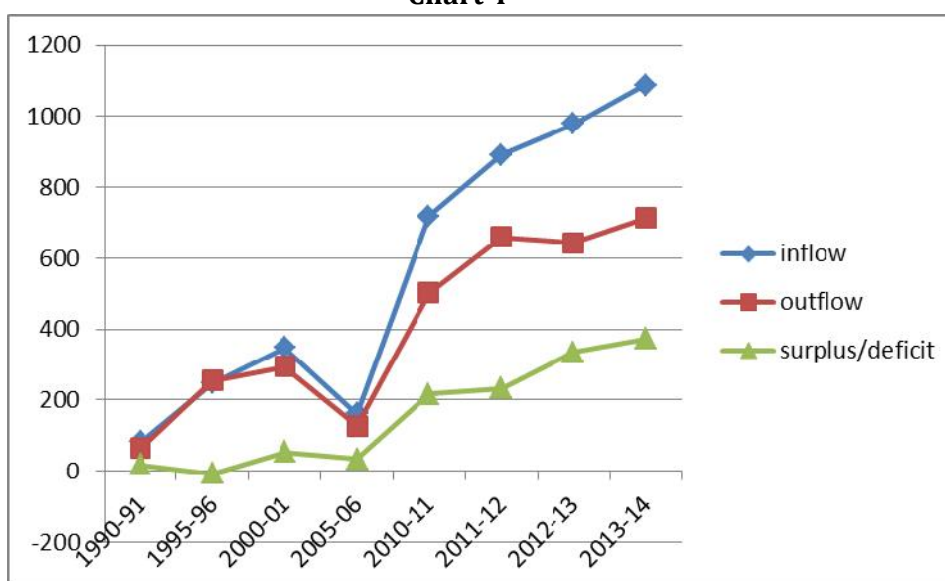
growing very faster. Invisibles have grown on an average of 22% in this time period though in the two years 2001-2002 and 2003-2004, they have grown by 52% and 62% respectively.

Table-4, Tourism inflow and outflow in invisible account of balance of payment

| Year | Inflow | Outflow | Surplus/deficit |
|---------|----------|---------|-----------------|
| 1990-91 | 81.69 | 64.08 | 17.61 |
| 1995-96 | 247.48 | 254.5 | -7.02 |
| 2000-01 | 348.48 | 294.32 | 54.16 |
| 2005-06 | 160.64 | 127.41 | 33.23 |
| 2010-11 | 718.51 | 502.12 | 216.39 |
| 2011-12 | 891.85 | 659.06 | 232.79 |
| 2012-13 | 978.81 | 643.33 | 335.48 |
| 2013-14 | 1088.071 | 714.26 | 373.811 |

Source: RBI Handbook of Statistics 2013-2014.

Chart-4



From the analysing of the data of tourism we can say that tourism income of India play a very significance role in invisible income of the country in this data we can see that expect 1995-96 India's tourism income are positive and countenously growing and the tourism income is a very important component of the invisible income of the country and showing continues increasing figure.

“Tourism is unlike other product that are exported or imported because it is not tangibly product, packaging, shipping and received like other goods. Nevertheless tourism is a product for sale the tourist goes to point of sale pay for the product (services) and at same point in the future or almost immediately receives the services. Even through tourism is sold abroad it is consumed in Belize, thus generating additional avenues for the sale of many goods and services. One other aspects tourism can be seen as superior export product for the productive capacity is less exhaustible and if mentioned properly many cause less disruption and pollution of the environment” (Molofert and Mount 1998) .

FINDINGS AND CONCLUSIONS

From the analysing of the above statement it is concluded that tourism is a very important part for the Indian economy and India is earning foreign exchange with the help of tourism income. Foreign tourism not only provides the foreign exchange to the country but also provide other macroeconomic benefit for the Indian economy. The current account of India is showing continuous deficit due to high volume import of goods as a merchandise import and whereas the services sector performance of India is very impressive and in the services sector the tourism play very important role. Foreign exchange earnings are used to make the payment of import of goods and services and the volume of foreign exchange shows the potential of the economy in the world. Tourism earning is very useful for eliminating current account deficit which arises due to high volume of import of merchandise products. The numbers of tourist are increasing in India day by day due to their development programme and attracting polices such as “Incredible

India” and “Atithi Devo Bhava”. The tourism of India is growing but the rate of growth of foreign exchange are not well the government of India should adopted the policies which enhance and motivate to the foreign tourist to come in India the bad and low Infrastructure facilities and disputes in the country are responsible for the low growth in tourism. The imports of goods cant be stop in India specially capital intensive growth and it increases the deficit of the balance of payment so India need to focus on the tourism earning for eliminating the balance of payment deficit from earning and showing surplus in the services sector.

REFERENCES

1. Sultan Ahmad, Rafat Fatima and Dr Akil Hussain “The impact of globalisation on India’s CAD” *EPRA International Journal of Economic and Business Review*, December 2015, Vol-3, Issue-12.
2. Sultan Ahmad, Sameena Bano and Dr Sajid” *The impact of interest rate dynamics on India inflation” Business Dimension An international journal of research and innovation November 2015 issue 11.*
3. Sultan Ahmad and Mr Niraj Kumar “Transition of Indian manufacturing sector to Make in India” *Towards Solution journal 2015 ISBN 978-93-85144-54-7*
4. *Annual Report of India’s Tourism 2014.*
5. *Market Research Division, Ministry of tourism, GOI, 2014”Tourism Statistics 2014”*
6. *RBI Handbook of Statistics 2013-2014.*
7. Raguraman, K. (1997). *Estimating the net economic impact of air services. Annals of Tourism Research*, 24, 658-74.
8. West G. and A. Gamage (2001), “Macro Effects of Tourism in Victoria: A Nonlinear Input-Output Approach”, *Journal of Travel Research*, 40 (1), pp. 101-109.
9. Leea, C. C. & Chang C. P. (2008). *Tourism development and economic growth: A closer look at panels. Tourism Management*, 29,180–192.
10. Balassa (1964) ‘The purchasing power parity doctrine: a reappraisal.’ *Journal of Political Economy*, 72,584-96.
11. Sodhani O.P. (1995) *Chairman, Report of the Expert Group on Foreign Exchange Markets in India, Reserve Bank of India.*
