

# Chapter 17

## Role of Tourism in Economic Growth of India

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### ABSTRACT

*This chapter evaluates the role of tourism for economic growth of India. Tourism and hospitality sector contributes 6.8% in India's GDP. For a country with 30 world heritage sites and a rich culture, tourism and hospitality industry has great potential to enhance tourist flow and accelerate economic growth due to multiplier effect of tourism on job creation. The descriptive research design is used for the study. The study examined the correlation of economic variables on foreign tourist arrivals. The paper evaluated the success stories of Kerala and Gujarat as a case of focused approach towards tourism. Secondary source of data is used to examine the trend of tourism and its role in economic growth of the country. Gross domestic capital formation was found to have highest correlation with foreign tourist arrivals. Growth rate of foreign tourist arrival is found to have significant positive correlation with growth rate of service sector in India and gross state domestic product of Kerala and Gujarat.*

### INTRODUCTION

Tourism and hospitality is an important parameter of socio-cultural identity and heritage of a country. In the era of globalization tourism and hospitality enhances the economic growth by job creation, source of foreign exchange and development of regions with potential for tourism.

According to World Travel and Tourism Council (2014), the contribution of travel and tourism in world GDP is estimated to increase from 9.5% of GDP in 2013 to 10.3% of GDP in 2024 (WTTC, 2014).

Tourism and hospitality industry contributes 6.8% of GDP of India, contributes 7.7% in total employment generated and provides foreign exchange of US\$18.13 billion (IBEF, 2014). The tourism and hospitality sector is the third largest source of foreign exchange for India (makeinindia, 2015). Market size of tourism and hospitality sector is estimated to increase from US\$ 122.1 billion in 2013 to US\$

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418.9 billion in 2022 (IBEF, 2014). The investment in tourism creates more jobs as compared to other sectors of economy. An investment of Rs. 10 lakh in tourism sector is estimated to create 89 jobs in hospitality industry as compared to 45 jobs in agriculture and 13 jobs in manufacturing sector (Planning Commission, 2007).

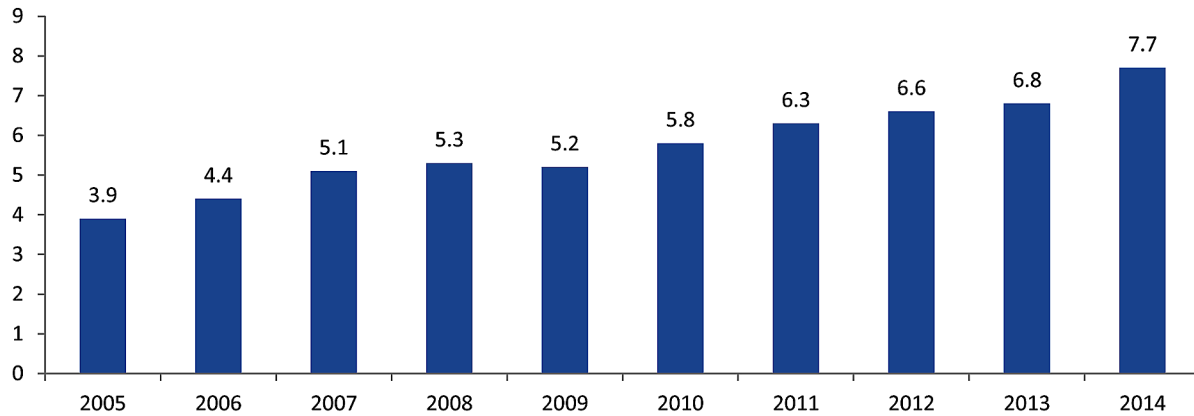
Hotel industry generates revenues of US\$ 400-500 billion annually (IBEF, 2015). In India tourism and hospitality has emerged as a sunrise industry with rise in number of foreign tourists. As shown in figure 1, the arrivals of foreign tourists in India have grown at a CAGR of 7.85% from 2005 to 2014.

The contribution of tourism and hospitality to the GDP has also grown at a CAGR of 10% from 2006 to 2014, as shown in figure 2. The consist rise in contribution of tourism and hospitality shows the potential of the tourism industry to accelerate economic growth with a supportive policy framework, better infrastructure, and law and order situation.

The foreign tourists are a good source of foreign exchange for the country. For a country like India with an adverse balance of payments, tourism plays a constructive role in enhancing foreign exchange reserves. The contribution of tourism and hospitality in foreign reserves has increased from US\$ 7.5 billion in 2005 to US\$ 18.1 billion in 2013 (IBEF, 2015), as shown in figure 3.

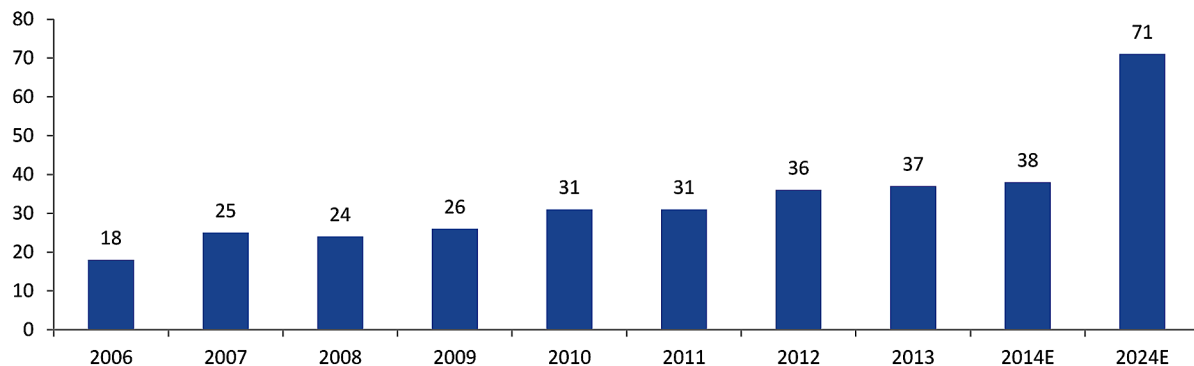
*Figure 1. Growth trend of arrival of foreign tourists*

*Source: India Brand Equity Foundation, 2015*



*Figure 2. Trend of contribution of tourism and hospitality sector in GDP*

*Source: India Brand Equity Foundation, 2015*



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