

**A STUDY OF TOURISM INDUSTRY IMPACT ON MACROECONOMIC INDICATORS**

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**ABSTRACT**

*Tourism is an industry which has been showing continuous growth year over year. It has direct as well as an indirect contribution to the global economy. In some developing economies, tourism is the major source for employment and income. This paper details the contribution of the industry to the global economy in economic indicators perspective. Foreign tourist arrival is the primary source for this industry. Though domestic tourism also been contributing to the economic growth, foreign tourist arrival has been taken for this study. Foreign tourist arrival directly involved in foreign exchange earnings so this study considered foreign tourist arrival. Gross Domestic Product Employment are the major economic indicators which tourism gives robust contribution so that two indicators has been taken for this study. All data and information used in this study was collected from authorized sources.*

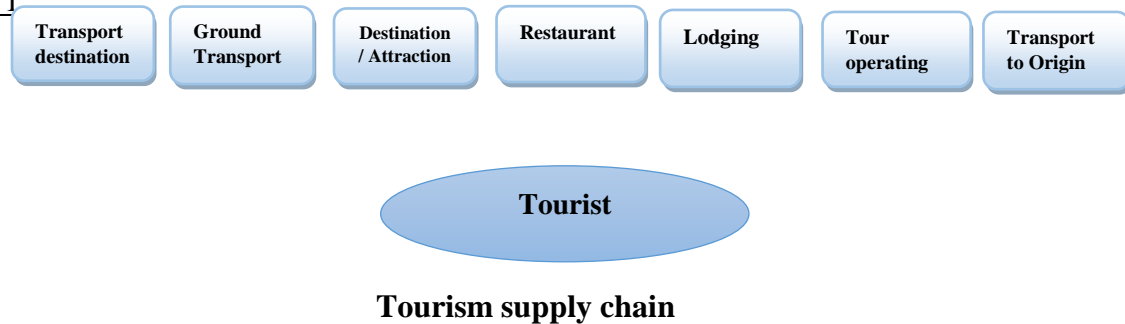
**Keywords:** Tourism, Gross Domestic Product, Foreign Tourist Arrival, Employment,

**Industry Overview**

Tourism is one of the world's largest industries, it gives a significant contribution to economic growth. Tourism is a highly fragmented industry that includes tour operators, accommodation providers, transport, caterers, leisure activities and entertainment (IMaCS). Since it is a

fragmented industry, it gives direct and indirect contribution to income and employment generation in some other industries. Figure 1 explains the tourism supply chain.

Figure: 1



Source: IMaCS analysis.

The supply chain starts with a destination where the tourists are being landed. Upon reaching destination, the tourist uses various modes of transport to visit the various destination / attraction. Restaurants and hotels for accommodation and other needs. Tour operators provide services which include ticket booking, site seeing, foreign exchange conversion, etc. the supply chain ends with the tourists being transported back to the origin, the place where the tourists started initially. International tourism includes business visit and professional travel, visit to meet friends and relatives, spiritual tour and health treatments of travelers crossing a border and spending one or more nights in the host country (INTERNATIONAL LABOUR ORGANIZATION). The ILO definition of the tourism component of the sector includes specific segments of transport, travel agencies and tour operators. Hotels, catering and restaurants are all considered by most organizations to belong to the tourism characteristic industries and are therefore subsumed under tourism. As per Human Resource and Skill Requirements of the Tourism Sector Report, The tourism industry can be categorized into three major sub segments as below Figure 2.

Figure: 2



Restaurant  
& Hotel

Tour  
Operators

Travel  
Industry

**Source:** Human Resource and Skill Requirements of the Tourism Sector Report 2009.

The global tourism and hospitality industry scenario continues to be in flux, the influence of political and economic events, including European sovereign debt crisis, conflict in the Middle East and the economic slowdown in Asia had cast uncertainty on both developed and emerging markets worldwide. Though the existence of uncertainty, the tourism industry has witnessed rising demand. The tourism industry is an influential economic activity in many countries all over the world. This industry also has enormous direct and indirect impacts on the country's economy and employment.

### **Economic indicator**

Macroeconomic indicators are statistics that indicate the present standing of the economy of a state looking at a selected space of the economy (industry, market, trade, etc.). They are often revealed at a particular time by governmental agencies and therefore the non-public sector. After publication of those indicators we will observe volatility of the market. The degree of volatility is decided looking at the importance of an indicator. The following are some of the major economic indicators,

- Gross Domestic Product (GDP)
- Employment indicators
- Balance of Payments (BOP)
- Consumer Price Index (CPI)

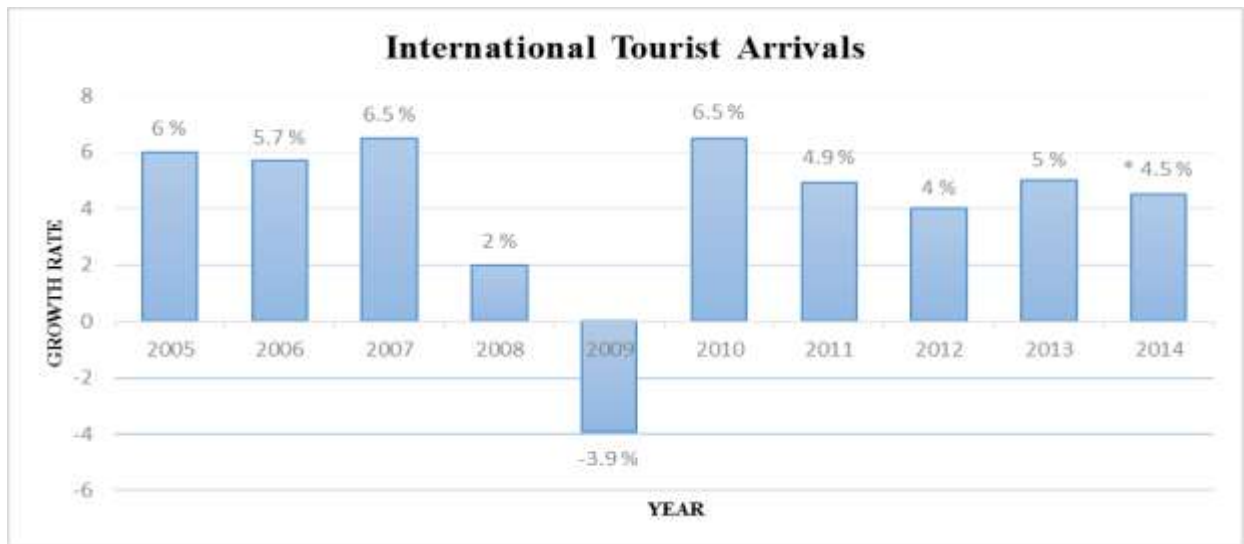
The tourism industry has given robust contribution to Gross Domestic Product and employment, which have been considered as an important macroeconomic indicators. The industry generates huge employment opportunities year over year. Tourism is an industry which is highly labor intensive and it gives employment opportunities to both skilled and unskilled

people. The industry brought a certain amount of foreign exchange earnings by foreign tourist arrivals.

### **Key source for industry growth**

Tourists are the source of the industry. Foreign tourist arrival is the key driver for tourism industry, though the domestic tourism revenue increased marginally. Countries are investing millions of amount to attract tourists from all over the world. World Tourism Organization (WTO) defined International tourist arrivals as “International inbound tourists (overnight visitors) are the number of tourists who travel to a country other than that in which they have their usual residence”. International tourist arrivals play vital role in the world tourism industry and arrival rate has been increased year over year. Consequences of international tourist arrivals are GDP growth, employment and foreign exchange. The tourism industry has benefited from the process of globalization. In 1950 the travel industry recorded 25 million international tourist arrivals while there were 277 million in 1980, 438 million in 1990, 684 million in 2000, 904 million in 2007 and 922 million in 2008 (UNWTO). The U.S. economy entered a recession in late 2007 and ended in mid-2009. According to the U.S. National Bureau of Economic Research, the United States recession began in the United States in December 2007 and ended in June 2009, and thus spanned over 18 months. The almost entire global economy had been affected by this recession because United States economy is world’s largest single national economy, The United States' nominal GDP was estimated to be \$16.6 trillion in June 2013. (National Economic Trends (Nominal GDP) Federal Reserve Bank of St. Louis. October 1, 2013. P. 24.). Tourism and travel industry faced improbable to believe scenario during the recession period. International tourist arrival growth rate dropped from 6.5% to 2 % in 2008 and the rate hit negative value in successive years (UTWTO). Once recession had been managed and controlled by certain measures the global economy started recovering, soon after it reached certain stability as before. The international tourist arrival rate reached 6.5% growth from -3.9% in succeeding year of rescission (UNWTO). Diagram 1 shows International tourist arrivals before and after the recession.

Figure 3:

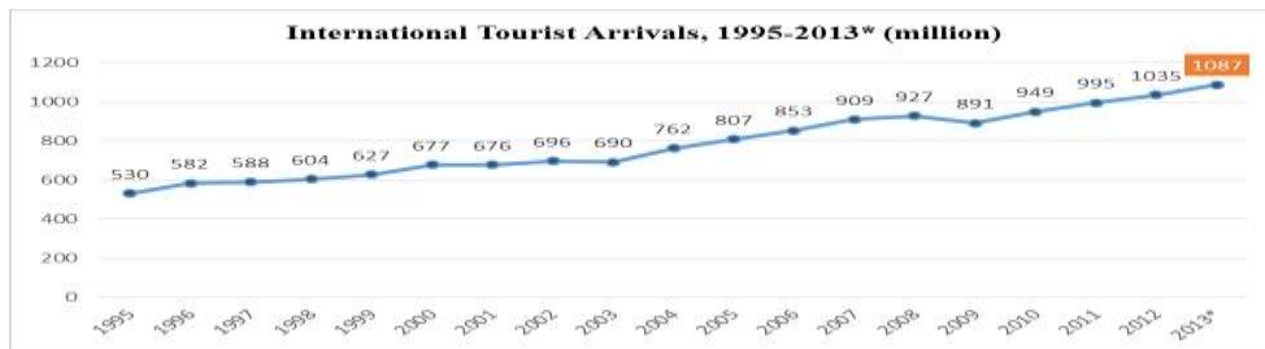


\*4.5 % forecasted value for 2014

**Source:** World Tourism Organization (UNWTO)

In 2012 again the global economy faced an economic slowdown, but this time it started with Euro zone. The International Monetary Fund said in its World Economic Outlook that “The global economic slowdown is worsening and global growth in advanced economies is too weak to bring down unemployment and what little momentum exists is coming primarily from central banks”. Despite of economic slowdown the year 2012 was a milestone year for tourism, over one billion tourists travelled the globe in a single year. These are extraordinary figures, especially when we consider that just over 60 years ago the number of international tourists worldwide stood at a mere 25 million. Diagram 2 shows UNWTO data from 1995 to 2012. As per the UNWTO annual report 2012, International tourist arrivals transcended 1 billion for the first in the history of tourism industry in 2012 with an additional 39 million international tourists, up from 996 million in 2011. Countries are being spent on infrastructure.

Figure 4:

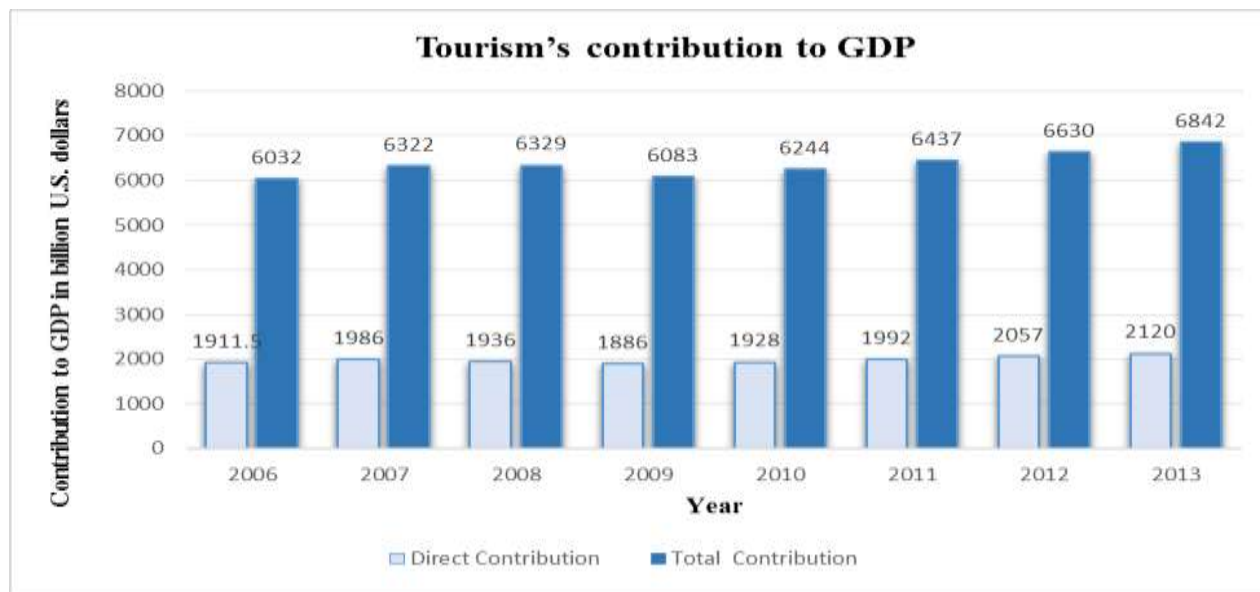


**Source:** World Travel & Tourism Council.

### Tourism's contribution to GDP

Travel & Tourism is an important economic activity in most countries around the world. As well as its direct economic impact, the industry has significant indirect and induced impacts (WTTC Travel & Tourism Economic Impact 2013). The direct contribution of Travel & Tourism to GDP reflects the 'internal' spending on Travel & Tourism (total spending within a particular country on Travel & Tourism by residents and non-residents for business and leisure purposes) as well as government 'individual' spending - spending by government on Travel & Tourism services directly linked to visitors, such as cultural., e.g. museums or recreational., e.g. national parks (WTTC Travel & Tourism Economic Impact 2013). The direct contribution of Travel & Tourism to GDP in 2012 was USD 2,056.6bn (2.9% of GDP). This is forecast to rise by 3.1% to USD 2,120.4bn in 2013. The direct contribution of Travel & Tourism to GDP is expected to grow by 4.4% pa to USD 3,249.2bn (3.1% of GDP) by 2023. The total contribution of Travel & Tourism to GDP was USD 6,630.4bn in 2012 (9.3% of GDP) and is expected to grow by 3.2% to USD 6,842.0bn (9.4% of GDP) in 2013. It is forecast to rise by 4.4% pa to USD 10,507.1bn by 2023 (10.0% of GDP).

Figure 5:



**Source:** World Travel & Tourism Council.

### Tourism's contribution to Employment

The human resource dimension is one of the most important elements of any industry sector, none more so than in a service sector, such as tourism, which is characterized by high levels of human involvement in the development and delivery of services or vacation experiences (Baum, 2006). Tourism and Hospitality is an industry which has high intensity of labor within the industry, making it a significant source of employment and placing it among the world's top creators of jobs (World of Work, The Magazine of ILO-No 71, April 2011). Employment in Travel & Tourism as a share of total global employment followed a general upward trend throughout the 1990s and the early 2000s, falling back in more recent years, partly because of cyclical patterns and changes in the destination mix for global Travel & Tourism. By the mid-2000s, direct employment in the industry edged over 3.5 percent (The Travel & Tourism Competitiveness Report 2013, P.64). Tourism industry also been suffered by economic slowdown and recession. It suffered harsher than average losses during most recent recession in 2009 (The Travel & Tourism Competitiveness Report 2013, P.65) Despite the crisis, global employment in the tourism industry increased by about 1 per cent between 2008 and 2009

(World of Work, The Magazine of ILO-No 71, April 2011). Tourism & Travel industry generated over 260 million jobs, 1 in 11 of the world's total jobs (WTTC Annual report 2013). Industry contribution was 101,118,000 jobs directly at 2012. It was 3.4% of total employment and it's been forecasted to 102,364,000 jobs in 2013 with 1.2% growth (WTTC, Travel & Tourism economic impact 2013, World). This employment includes employment by hotels, travel agents, airlines and other passenger transportation services. The total contribution of Travel & Tourism to employment was 261,394,000 jobs in 2012, it was 8.7% of total employment. This is forecast to rise by 1.7% in 2013 to 265,754,000 jobs with 8.8% of total employment.

(WTTC, Travel & Tourism world economic impact 2013). By 2023, Travel & Tourism are forecasted to support 337,819,000 jobs (9.9% of total employment).

Figure: 6



**Source:** World Travel & Tourism Council.

### Capital investment

Capital investment includes capital investment spending by all sectors directly involved in the Travel & Tourism industry. This also constitutes investment spending by other industries on specific tourism assets such as new visitor accommodation and passenger transport



equipment, as well as restaurants and leisure facilities for specific tourism use (WTTC, Travel & Tourism economic impact 2013, World). Travel & Tourism attracted capital investment of USD 764.7 billion in 2012. This is expected to rise by 4.2% in 2013, and rise by 5.3% pa over the next ten years to USD 1,341.4bn in 2023 (WTTC, Travel & Tourism economic impact 2013, World).

### **Conclusion**

Tourism is one of the important industry, which has a vast contribution to the global economy. The tourism industry has significant impact on GDP, employment and foreign exchange generation. In emerging economies this industry is a key driver for economic growth and source for employment. Tourism is having substantial impact on domestic economies in many developing countries. The recent research from WTTC shows that the Travel & Tourism industry generated 261,394,000 jobs (Total contribution) worldwide and contributed 9.3% of global GDP in 2012. The international tourist arrival rate has been reached 1 billion mark in 2012. None of the industry generates wealth and employment across developing countries as tourism industry does. UNWTO report indicates 1 in 11 jobs globally related to tourism industry in 2012. These growth rate has been forecasted to increase in future. As per WTTC and UNWTO research reports tourism industry contribution to the global economy is significant and it is being forecasted to increase in next ten years.

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