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An Analysis of Percentage Share of Foreign Exchange Earnings from Tourism in Balance of Payments of India

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Abstract: ***Tourism is a rapidly growing industry of the world and it is gaining universal acceptance as an engine because of its forward and backward linkages which helps in overall development of a country. Like any other countries, India is also recognizing the tourism sector's ability to push the economy upward. India is now able to attract a huge amount of foreign tourists, which is giving rise to the number of foreign tourist arrivals (FTAS) in India, which in turn giving rise to the foreign exchange earnings. According to Ministry of Tourism (Government of India), during 2018, foreign tourist arrivals (FTAs) in India stood at 10.56 million and it is contributing US $ 28585 million as a Foreign Exchange to the economy. This is also providing helping hand to stabilize the Balance of Payments (BoP) of the country. The tourism sector of India is the second largest contributor among the services to the current account balance of the country. India is a net exporter of travel as foreigners visiting India spend more money than Indians visiting foreign countries. As International tourism usually does not require high value imports for every single unit of foreign currency coming into the economies of developing countries, it can be used for the development of the economy of the country. However, this paper is trying to analyze the growth of the tourism sector as well as its percentage share as Foreign Exchange Receipts to the Balance of Payments (BoP) of the country India.***

Keywords: ***balance of payments (BoP), international tourism, percentage share, tourism.***

I. INTRODUCTION

Tourism has a great potential in case of reaching the main macroeconomic goals which regard economic growth, employment, sustainable economic and social development. It not only share its contribution to the growth of the economy, but also contribute to stabilize the Balance of Payments (BoP) of the country through raising the amount of foreign exchange. Balance of Payment generally shows the international transaction of a country with rest of the world. In such case however, when the contribution of tourism to BoP is concerned, it is all about the international tourism. International tourism is when a person crosses its nation's boundary and enters in another country as a tourist. However tourism is the largest service industry globally in terms of gross revenue as well as foreign exchange earnings.

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Moreover, it is considered as an exporting sector which can help the improvement of the balance of payments, since international tourism represents consumption of goods and services outside of the source country.

So far as India is concerned, tourism comes under the current account of the BoP of the country and is seen to contribute a positive amount to the overall BoP of the country.

This is because India has achieved an exponential growth pattern in the tourism industry and has become a preferred location for overseas travellers. India's travel and tourism according to the report of WTTC, India ranked 3rd among 185 countries in terms of travel and tourism's total contribution to GDP in 2018. The unique cultures, natural beauties, historical and architectural sites, great values of the people of the country etc attract people from all around the globe. The handicrafts particularly carpets, jewels, leather goods, ivory, brass works are eye catching. These are contributing to raise the growth rate of the foreign tourist arrivals to India and which in turn is raising the amount of foreign exchange earnings. This is obvious that rising amount of foreign exchange reserves is having a positive share to the Balance of Payments of the country.

Though the importance of tourism industry is growing, the industry was generally ignored in global studies concerning development, growth and wealth until the 1950s (Bahar, 2006 ; Crouch & Ritchie, 1999). However, the revenues earned from the tourism industry make and important impact on economies, resulting in job creation, foreign currency receipts, higher investment as well as higher economic growth (De Mello, Pack, & Sinclair, 2002).

Thirwall (1979) identifies the importance of the balance of payments on economic growth. Inbound tourism can stimulate economic growth in numerous ways and one of them is tourism significantly contributes to foreign exchange reserves which help in bringing new technologies for production process (McKinnon, 1964). The foregoing study is mainly focusing on the earning of foreign exchange and its percentage share in the Balance of Payments (BoP) of the country.

II. OBJECTIVES

The objectives of the present study are:

(i) To study about the growth of tourism industry in India.

(ii) To analyze the trend of Foreign Exchange Earnings from Tourism in India.

(iii) To study about the contribution of Foreign Exchange Earnings from Tourism to the Balance of Payments of India.

III. METHODOLOGY

The present study is completely based on secondary data. It is mainly descriptive and analytical in nature. In order to attain the objectives of the study, the necessary data have been collected from various sources such as- census reports, reports of Reserve Bank of India and Ministry of Tourism, journals, articles, websites etc.

IV. DISCUSSION

A. Meaning of Balance of Payment and its components:

A Balance of Payment (BoP) is a systematic record of all economic transactions between residents of a country and the rest of the world carried out in a specific period of time. In other words, it is a summary of international transactions of a country for a given period of time which records a country's transactions with the rest of the world involving inflow and outflow of foreign exchange.

The Balance of Payments classifies these transactions in two accounts- the (a) Current account, which includes transactions in goods, services, investment income and current transfers; (b) Capital account and financial account, which mainly includes all international capital transfers (i.e. acquisition of non financial assets and non-produced assets, which are need for production but have not been produced) as well as international monetary flows related to investment in business, real estate, bonds, and stocks.

The BoP account, like a typical business account, is based on double entry system which contains two sides- Credit side and Debit side. Between these two, any transaction which brings in foreign exchange is recorded on credit side whereas any transaction that causes a country to lose foreign exchange is recorded on debit side. For example, export is credit item as it brings in foreign exchange and on the other side, import is debit item as it causes outflow of foreign exchange. Like in case of international tourism which come under the 'travel' item of the current account, the expenses which the international tourists make for acquiring various goods and services in the host country are recorded on the credit side, whereas on the debit side are recorded the expenses which the citizens of source country make for buying goods and services when they travel abroad.

However, international tourism generates a series of transaction in the current account and also in the capital or financial account. For example, it affects goods, income, capital movement etc. But, the thing is that these transactions are not present in an obvious way on the balance of payments. This is why, it can be said that the 'travel' item constitutes a more traditional approach to the economic analysis of tourism.

B. The Tourism sector of India:

Tourism is a rapidly growing industry of the world and it is gaining universal acceptance as an engine because of its forward and backward linkages which helps in overall development of a country. Like any other countries, India is also recognizing the tourism sector's ability to push the economy upward. India is a land of unlimited opportunities, as the country is blessed with vast culture, diversity and tremendous natural beauties. Each city and state has so much to offer in terms of the architecture, adventures, heritage and so many experiences to be explored.

However, India in the recent years is experiencing a strong period of growth in its tourism industry. India is one of the preferred destinations for both foreign and domestic travellers. According to the Indian estimates, Indian tourism industry has outshined the global tourism industry in terms of growth, revenue and volume of tourist arrivals. According to Ministry of Tourism (Government of India), during 2018, foreign tourist arrivals (FTAs) in India stood at 10.56 million and it is contributing US $ 28585 million as a Foreign Exchange to the economy. In case of balance of payments of India also, tourism sector is contributing a huge amount. Even it is the second largest contributor to the current account receipt of the country.

Here, foreign tourist arrivals (FTAs) refer to the number of arrivals of tourist. An individual who makes multiple trips to the country is counted each time as a new arrival. However, the growth of the industry in the recent past years has been shown in terms of foreign tourist arrivals (FTAs) in India:

Table 1: Total Foreign Tourist Arrivals in India (2000-2019)

Year	FTAs in India (in million)	Percentage (%) change over previous year	Year	FTAs in India (in million)	Percentage (%) change over previous year
2000	2.64	6.7	2010	5.78	11.8
2001	2.54	-4.2	2011	6.21	9.2
2002	2.38	-6.0	2012	6.57	4.3
2003	2.73	14.3	2013	6.97	5.9
2004	3.46	26.8	2014	7.68	10.2
2005	3.92	13.3	2015	8.03	4.5
2006	4.45	13.5	2016	8.80	9.7
2007	5.08	14.3	2017	10.04	14.0
2008	5.29	4.0	2018	10.56	5.18
2009	5.17	-2.2	2019 (April)	7.71	-

Source: Ministry of Tourism, Government of India.

The table1 shows almost an increasing trend of foreign tourist arrivals to India. It was just 2.64 million in 2000, which increases to 10.56 million in 2018. However, an analysis of tourist arrival for last 12 years has been given with a figure1.

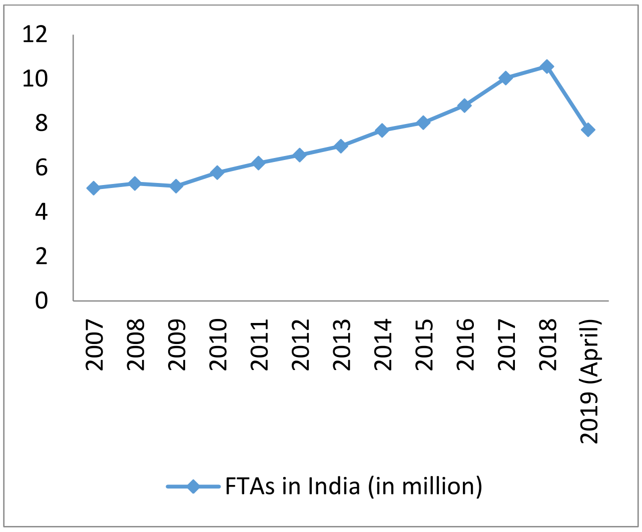

Figure1: Total Foreign Tourist Arrivals in India (2007-2019)

Source: Ministry of Tourism, Government of India.

Up to 2008, tourist arrival was increasing and again in 2009, it became negative, i.e. decreases from 5.29 million to 5.17 million. According to Ministry of Tourism, this recession was due to global slowdown, terrorist activities and the h4N1 influenza pandemic. After this year, it is growing till 2018 and stood at 10.56 million of tourist arrivals. However, it is not that only foreign tourists are contributing to the growth of industry, domestic tourists are also responsible for this, but the thing is that as the foreign tourist spend more than the domestic tourists, its significance is more in attention.

Among all the countries, the highest numbers of tourists are coming from Bangladesh, United States, United Kingdom, Canada, Australia, Malaysia, Sri Lanka, Russia, Germany and France. Thus, the tourism industry is growing so fast that the current economic slowdown is also unable to affect it. According to the ministry, the major factors contributing to the growth include various government initiatives, such as e-visa, which has helped in attracting more international tourists. Besides, in the last four years, India has seriously implemented its promotion strategies in branding, advertising and selling of its tourism potentials. Thus India is trying to make this industry stronger day by day.

C. Percentage Share of Foreign Exchange Earnings from Tourism to the Balance of Payments of India:

In the process of development, as a country starts developing, they are moved from a traditional agricultural economy to an industrial based one. But, for this change, a developing country requires expenses for big capital investments. For many developing countries the necessary expenses are financed by the export of goods of the primary sector or another option is to depend on the tourism related exports. Thus many countries of developing countries are systematically oriented towards the development of tourism, because if their countries cannot produce certain products due to the lack of the necessary factors of production, then they can secure these products from other countries in exchange for their products which are in demand abroad.

Table 2: Foreign Exchange Earnings from Tourism in India (1994-2018)

Year	FEE (US $ Million)	%Change over the previous year	Year	FEE (US $ Million)	% change over the previous year
2000	3460	-	2010	14490	30.1
2001	3198	-7.6	2011	17707	22.2
2002	3103	-3.0	2012	17971	1.5
2003	4463	43.8	2013	18397	2.4
2004	6170	38.2	2014	19700	7.1
2005	7493	21.4	2015	21013	6.7
2006	8634	15.2	2016	22923	9.1
2007	10729	24.3	2017	27310	19.1
2008	11832	10.3	2018	28585	4.7
2009	11136	-5.9			

Source: Ministry of Tourism, Government of India

India, however, as a developing country also giving enough attention to the development of the tourism sector or tourism industry. Contribution of the tourism industry to the development of the economy is undeniable as it is absorbing a huge amount of labour force and giving an income source to many people in India and giving a boost to the growth of the economy. Moreover in case of international tourism, as it helps in earning more foreign exchange, this in turn is helping to stabilize the BoP accounts and deficits. This favourable effect of tourism on BoP has also been seen through the trend of foreign exchange earnings from tourism in India in Table2. It has been seen that except for the year 2001, 2002 and 2009 the growth of foreign exchange earnings from tourism is positive and is quite high. During these three years, foreign tourist arrivals were also declining (Table 1). The reason behind the negative growth during 2001 and 2002 was due to the terrorist attacks in the United States, which had affected the tourism industry across the world including India. Table2 shows that foreign exchange earnings are just US $ 3460 million during the year 2000 which has increased up to US $ 28585 million in the year 2018. This is one of the positive effects of the tourism industry on the balance of payment of India.

If the Balance of Payments of India over past few years (2008-2019) is analyzed, then it can be seen that though there is current account deficit in the country, but the overall balance of payment is positive except for the years 2008-09 and 2011-12.

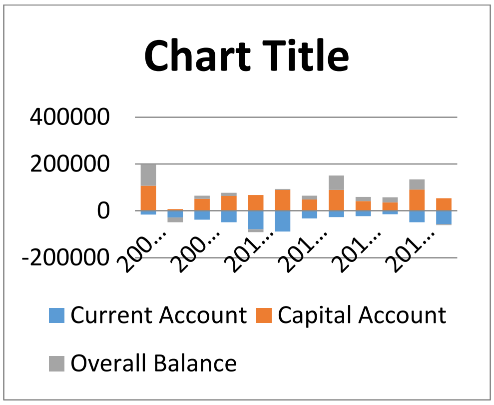

Figure2: Balance of Payments (in US $ million)

Source: Reserve Bank of India (rbi.org.in)

From the figure, it has been seen that the current account deficit is fluctuating. Up to the year 2012-13, it was increasing from about $15 billion to $88 billion, but after that it was declining till the year 2016-17 and reached $14 billion. Again it touched $48 billion in the year 2017-18. The negative overall balance in 2008-09 reflects the impact of global financial crisis. As capital inflows plummeted, India had to draw down its foreign currency assets by US$ 20 billion during the period. In addition, there was decline in India's merchandise exports and deceleration in growth in services exports. Again during 2011-12,

BoP came under stress as slowdown in advanced economies affecting adversely developing economies,

and there was sharp increase in oil and gold imports. After this year overall balance as well as current account is also showing positive result. Thus, India's exports, which are much lower than imports, is the main cause of current account deficit; and second major component is foreign investment income where profits are repatriated to a company's origin country.

However, India is in surplus in trade in services and a net gainer of remittances, which are also a part of current account. The detailed analysis of service component of current account deficit shows that the largest component of India's service surplus comes from IT industries. And, then come the tourism sector. India is a net exporter as foreigners visiting India spend more money than Indians visiting foreign countries. But, India has also to send abroad a significant amount of money for use of intellectual property and India is also a net importer of recreational services that include services in film, music industry etc.

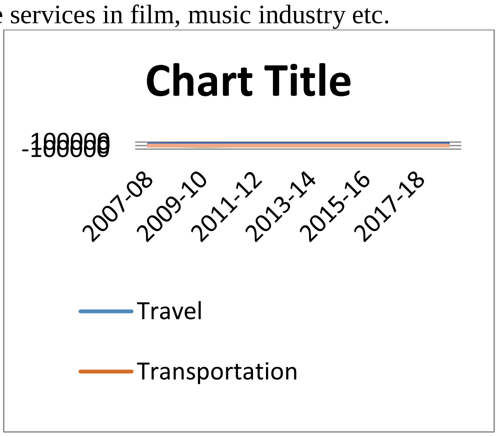

Figure 3: Contribution of Various Items of Service to the Balance of Payments (BoP)

Source: Reserve Bank of India (rbi.org.in)

Figure 3 shows the various items that come into the service category of the Balance of Payment (BoP). The figure clearly shows that the tourism is the second highest contributor after the software services. These two items by being positive are maintaining the service account as well as the current account of BoP.

Table 3: Net Receipts of highest contributors (in US $ million):

Year	Travel	Software Services
2007-08	2091	36942
2008-09	1469	43736
2009-10	2517	48237
2010-11	4768	50905
2011-12	4699	60957
2012-13	6176	63504
2013-14	6112	67002
2014-15	5028	70400
2015-16	6476	71454
2016-17	6792	70763
2017-18	8839	72186
2018-19*	6737	77654

Source: Reserve Bank of India, rbi.org.in (*data for 2018-19 are preliminary estimates)

Table 3 shows that the net receipts under both travel and software services has increased over the years. If compare with the initial year 2007-08 with the last year 2017-18, then it will be seen that the net receipts of travel has increased by 4 times and receipts of software services has been more than doubled. The growth of travel is more than the software services.

The pattern of receipts and payments of tourism that is covered by the travel section of the current account is as follows for the last few years:

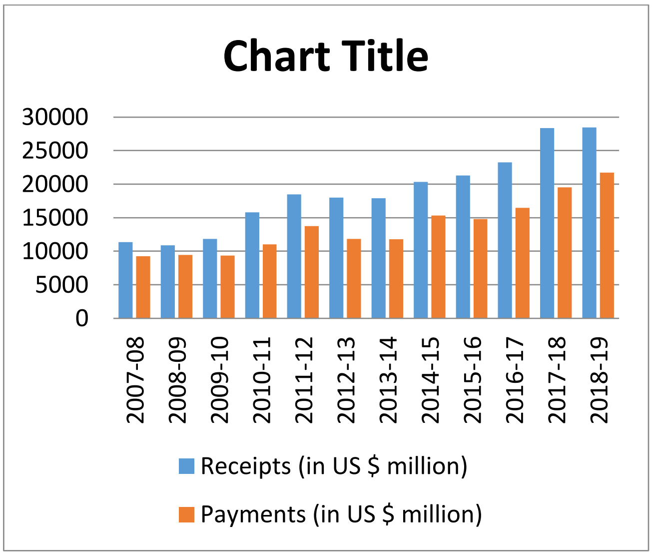

Figure4: Receipts (credit) and Payments (debit) in Tourism:

Source: Reserve Bank of India (rbi.org.in)

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The ‘travel’ item includes expenses made by tourists in our country and these expenses represent income in foreign currency. Besides, these receipts include any other prepayment made for goods and services received in the destination country. It has been seen from the figure 3, the receipts (income) from travel has increased from just $ 11349 million in 2007-08 to $ 28441 million in the year 2018-19. It is 150.6 % increase in the 2018-19 compared to 2007-08. Though with receipts, the amount of payments (expenditure) also increased, but there is always has surplus in the tourism.

These receipts under the tourism item of the current account have a significant positive share in the total export as well as total imports of the country. Figure4 which shows the tourism export as percentage of total export and import is giving the idea whether tourism is having surplus or deficit in its account.

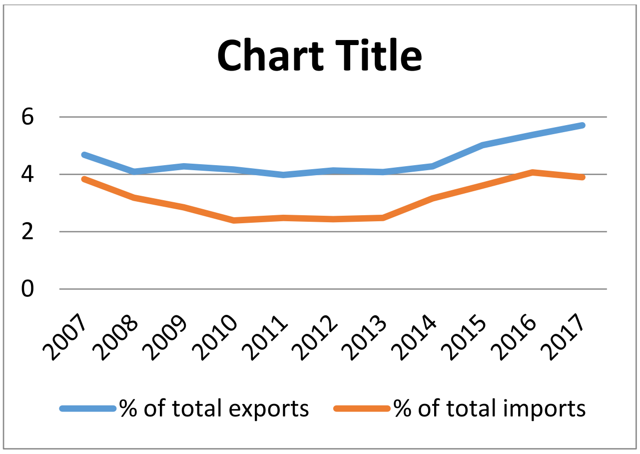

Figure5: International tourism (as % of total exports and % of total imports)

Source: World Tourism Organization, Yearbook of Tourism Statistics, Compendium of Tourism Statistics and data files, and IMF and World Bank exports estimates.

The share of tourism in exports is calculated as a ratio of exports of goods and services and the share in imports is calculated as a ratio of imports of goods and services, which comprise all transactions between residents of a country and the rest of the world involving a change of ownership from residents to non-residents of general merchandise, goods sent for processing and repairs, nonmonetary gold, and services. Figure4 shows that share of tourism to total exports was lowest at 3.97% in the year 2011 and highest in 2017 with 5.7% between the periods 2007 to 2017. In the same period, shares in imports lowest with 2.39% in 2010 and highest with 4.06% in 2016. If we compare the shares in exports and imports, then it is seen that share in export is more than share in imports, which is definitely a favourable result of international tourism.

It is said that tourism industry cannot be considered a major industry for the small economies since such economies have a very weak financial structure and suffer from a negative balance of payments. But in case of India, even though there is deficit in the balance of trade as well as in the current account, but there is always surplus in the balance of services due to the positive result of tourism as well as software services in the service items. This somewhat helps in stabilizing the overall Balance of Payment in India.

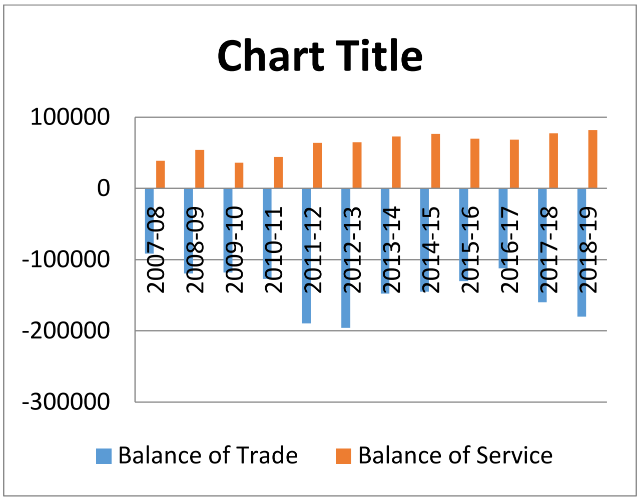

Figure6: Balance of Trade and Balance of Service (in US $ million)

Source: Compiled by the author using data from Reserve Bank of India (rbi.org.in)

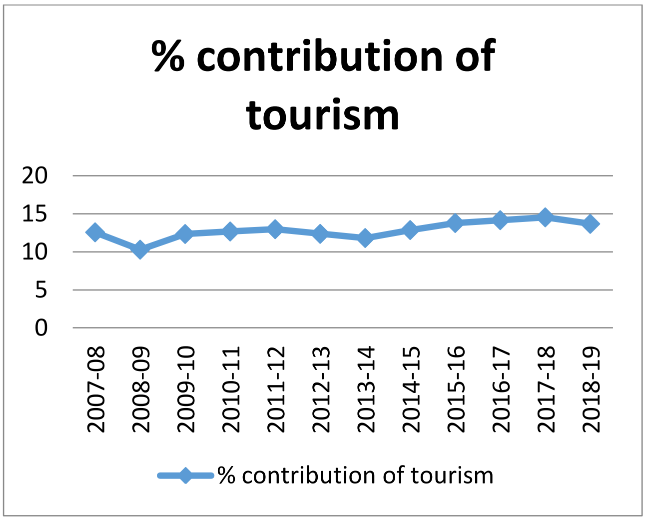

Figure 7: Percentage of travel receipts in total receipts of service:

Source: Compiled by the author using data from Reserve Bank of India (rbi.org.in)

The figure5 reflects the percentage contribution of the tourism to the total receipts of service and it has been seen that the percentage contribution is fluctuating over the years, but the percentage is always above 10%.

From the above analysis, we can observe the contribution as well as role of the tourism sector to the Balance of Payment of the country. But, these are just the contributions that we can analyse or estimate from the balance sheets of the country. Tourism has its shares even to the capital account of the BoP of the country which directly cannot be estimated, for example foreign direct investment (FDI) inflow to the tourism sector of the country. As the tourism sector of the country is in the list of top ten countries around the world. It is being established as a profitable industry, which is attracting more foreign investors.

Along with the growth of tourism industry, there is growth of business opportunities in the country as it necessitates agents to give the hospitality to the tourists, and thus it is giving rise to the business in hotels, travel agents, transportation, entertainment programme organisers, street food stalls etc. Among all these, the business in hotels is attracting more foreign investors. Moreover, Government is also taking various initiatives to attract them.

In order to stimulate domestic and international investments in the tourism sector, the Indian Government allows 100 percent Foreign Direct Investment (FDI) in its tourism industry for the construction of hotels and similar projects and operations. In addition, a five year tax holiday is granted to organizations that set up hotels, resorts and convention centres at specific destinations. The hospitality industry is expected to see an additional US$ 11.41 billion in inbound investments over the next two years.

According to the Department for Promotion of Industry and Internal Trade (DPIIT), foreign direct investment (FDI) in services sector grew 36.5 percent to $9.15 billion in 2018-19 which was just $6.7 billion in 2017-18. The sector accounts about 18 percent of the total FDI India received between April 2000 and March 2019.

V. RESULT & ANALYSIS

The above analysis clearly shows that foreign exchange earnings along with foreign tourist arrivals are growing. And increasing foreign exchange earnings definitely implies to have favourable effect of tourism on the Balance of Payments (BoP) of the country. Secondly, though current account is in deficit, but balance of service is in surplus due to contributions of software services and tourism, and the travel and tourism item is the second largest contributor among the services. International tourism usually does not require high value imports for every single unit of foreign currency coming into the economies of developing countries. India is also showing that the amount of export is greater than the amount of import of its tourism sector.

VI. CONCLUSION

From the analysis, it can be concluded as well as recommended that a large percentage of these transactions through tourism can be used for the realization of fruitful investments, whose aim is to speed the development of industries, to further the development of agriculture, with an aim of fall in the deficit of the balance of current transactions.

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