Contribution of Tourism Industry in Nepal: Measuring Its Economic Impact

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Abstract

This research paper is concern with the economic impact of tourism industry in Nepalese economy. Tourism industry is multi-industry and multi-productand tourist demand is complementary and has to be met by a number of goods and services, which are not only spatially disparate but also functionally different. The tourist product is of a highly perishable nature and the bulk of tourist facilities have an in-built inflexibility. It initially reviews the concert and using a model, it deals with the factors affecting the economic impacts associate with tourism. The economic impact is measured in terms of direct employment, foreign exchange earnings, GDP and government royalty due to the flow of total tourists arrival of tourists in different fiscal years by using linear regression model and correlation. Results reveal that there is positive economic impact of tourism industry in Nepalese economy.

Keywords: Tourism; Development, Economic Impact, Nepalese Economy

Introduction

The tourism industry is multi-industry and multi-product and it demands complementary and meet by a number of goods and services which are not spatially disparate but also functionally different. Tourism industry coordinates different components of its product to create a package service. Tourism industry coordinates different components of its product to create a package of service, so that helping to earn revenue, employment and foreign currencies. The tourists products are of highly perishable nature and bulk of tourists facilities have an in-built inflexibility. The expenditures made by the tourists are also multi-product in nature. A dollar spent by a tourist transmits impulses to different sectors of the economy.

The growth of tourism has had a significant impact on all aspects of economic, sociocultural and physical environment of a country. The outcome of growing tourism cannot be considered as an isolated phenomenon. In fact, it has come up as a decisive link in gearing up the pace of socio-economic development world over. Tourism size and its quality contain many activities which form and correlate horizontally and vertically with other productive activities sectors, making the economic wheel rounding and growing continuously (Jenkins & Henr,1982). The majority of industrialized and emergent countries consider creating a powerful tourism industry an important element for their economic growth in the long term based on services provided and grounds of these services to be found which in the end contributes to the developing of the country's infrastructure.According to the World Travel & Tourism Council's (WTTC) annual research in 2018, travel and tourism is one of the

world's booming industries, generating approximately US$ 8.8 trillion annually and contributing 319 million jobs to the world economy. Similarly, over 600 million international tourists visit different parts of the world every year. (Mahatara, 2019).

Tourism has become one of the main income sources for many developing countries like Nepal. Nepal has great potential to become a top destination for tourists as the nation is famous for its snowcapped mountains, abundant flora and fauna, exciting trekking routes and rich cultural and religious diversity. The 2017 report covers 136 economies, of which China ranks 15th, India 40th and Nepal 103rd in global rankings. The tourism industry raked in foreign currency equivalent to Rs 76.09 billion in 2017/18. Nepal holds great potential for tourism development, which can stimulate economic growth and development. For Nepal, tourism is the main instrument for regional development with positive economic impact on the income, employment and production. Significance of tourism could be judged by calculating the contribution made by tourist receipts to national income and employment generation in the country. The main economic significance of tourism lies in the fact that money usually earned by a person at his normal residence is spent in the place visited by him.

Literature Review

Tourism is one of the most important industries in the world which gives a significant source of economic outcomes and the possibility and opportunity for employment. It is also a complex industry which requires huge capital investment and resources as well. For finding the research problems various national and international research documents and journals have been reviewed.

The research article conducted by Zurub, H. et al (2015) has found that the majority of developed economies consider tourism a fundamental industry for their economic growth because it depends on other productive sectors making the infrastructure of a zone and cycling its economic wheel.They used the descriptive statistics to analyze the time evolution of the concerned socio-economic phenomenon, the tourism industry's contribution to the gross domestic product (GDP) by using data from the selected countries.

Daniel J.Stynes (1997) has found that the principal motivation for a business to serve tourists is generally economic. A good understanding of tourism's economic impacts is important for the tourism industry, government officials and the community as a whole. The researcher has attempted to define the key concepts and explain the basic methods for estimating the impacts of tourism. Tourism's economic impacts are important considerations in state, regional and community planning and economic development. The author has applied the Input-output mathematical model that describes the flows of money

between sectors within a region's economy. The author has used the descriptive and analytical research design.

The impact of tourism on any destination generally depends among other things, on a variety of factors such as volume, type and seasonality of tourism activities. Tourism is also to a large extent determined by structure of the host economy, differences in socio-cultural characteristics between hosts and visitors, and the characteristics and fragility of the local environment. The unplanned tourism activities can pollute nature and cultural environment as much as it influences the social and economic life styles in the host country (Shrestha, 2000).

Malhotra (1995,p.25) has focused that tourism effects the economy of destination area cannot be questioned however the extent of this effect, its implications and repercussions are debatable. There are countervailing forces at play within an economy the costs and benefits accruing from tourism are not immediately quantifiable.

The finding of different research showed that there is significant economic impact of tourism in the economy. The research papers are based on different country context. In the context of Nepal, such compressive study has not been yet, so the focus of this paper is to analyze the economic impact of tourism industry in Nepalese economy.

Objectives and Methods

There have been conducted many studies toward the economic impact of tourism industry in different countries, in case of Nepal such comprehensive study has not been done. So this paper has focused on analyzing the economic impact of tourism industry in Nepalese Economy.

This study is based on secondary data and descriptive and analytical research design is applied to analysis and reviews the different sectors of tourism industry. All analysis and discussion have been based in published source of secondary data such as Economic Surveys (2001/02-2019/20), Ministry of Tourism, Department of Tourism, National Planning Commission, Nepal Rastra Bank, Central Bureau of Statistics (CBS) and other different associations which are related with tourism economy. The economic impact is measured in terms of foreign exchange earnings, employment generation, government royalties and contribution to gross domestic product (GDP). To show the relationship of dependent variables and independent variables, correlation is applied and measuring the economic impact on Nepalese economy, linear regression model is applied assuming total tourists arrivalsindependent variables and foreign exchange earnings, direct employment, government royalties and contribution to GDP as dependent variables. Some descriptive

statistics such as table and line graph are used to explain the data. Similarly, to measure the economic impact in the economy, linear regression model is applied.

Discussion and Results

Tourism has the biggest impact on the economy of any place or the world. First and foremost, tourism helps in creating the opportunity of employment. The increment of employed people helps to generate income and raise the standard of their living. It helps people to create new industry in rural areas and increase their production. These all helps to increase the tax collection which later helps in economy of the country. Even though it helps to create an employment opportunity, the payments to those jobs are minimal and are seasonal which creates underemployment. Greater demand of goods, foods and services can cause in increment of cost of living. This industry has been extending these days and number of tourists arrival also increasing these days. Various programs have been operating for the development of tourism industry and tourism policy has also been more liberal. Tourists come in Nepal with various purposes.

Tourists Arrivals, Average Duration of Stay and Growth of Tourists Arrivals

The tourist arrival and their average duration of stay is shown in the Apnnex-I: There is fluctuation of tourists arrivals due to change in tourism environment in different years. The average duration of stay remains between 7.92 days to 13.5 days.

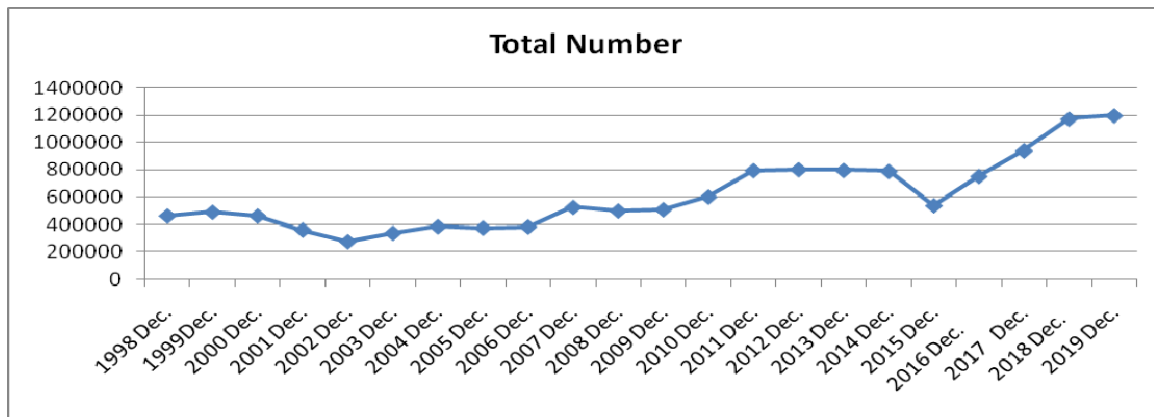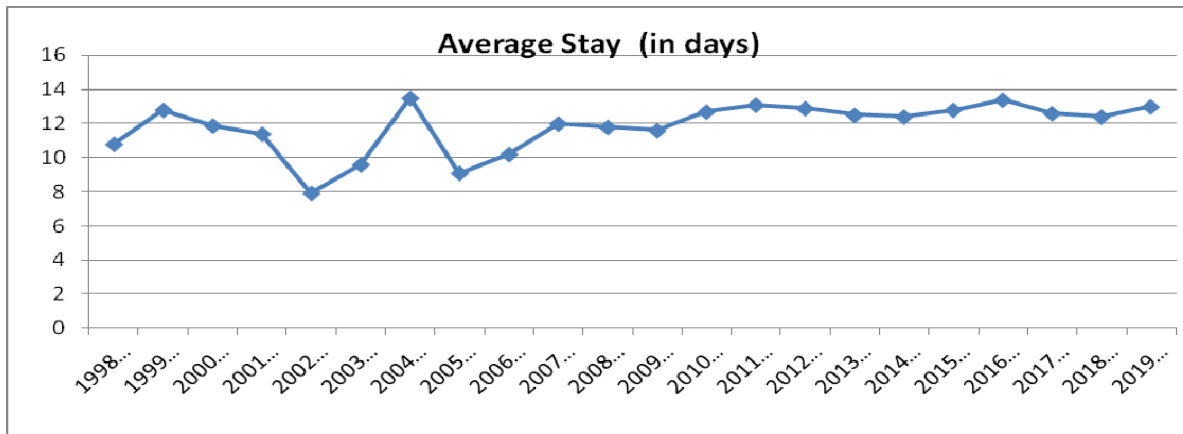**Figure1: Tourist Arrivals from 1998/99 to 2019/20.**

Figure shows that the highest number of tourists was arrived in 2019/20 Dec. and lowest number of tourists arrived in the year 2016/17. Similarly, the average stay of tourists was the highest i.e.; 13.5 days in the year 2004/05 as well.

Figure 2: Average Duration of Stay of Tourists from 1998/99- 2019/20.


Foreign Exchange Earnings

Foreign exchange earnings in FY 2018/19 had increased by 9.99 percent and reached Rs.7537.40 ten million. Tourism industry had contributed near about 5.4 percent in total foreign currency which was 5.7 percent in 2017/18. In the mid-March 2019/20, the foreign exchange earnings was5410.40 tenmillion which contributed 5.8 percent of total foreign exchange. There is significant contribution of foreign exchange earnings in the ratio of total foreign exchange in Nepal.*(See Appendix –I)*.

Figure 3:*Foreign Exchange Earnings from Tourism from 1998/99-2019/20 (Rs.Ten Million)*
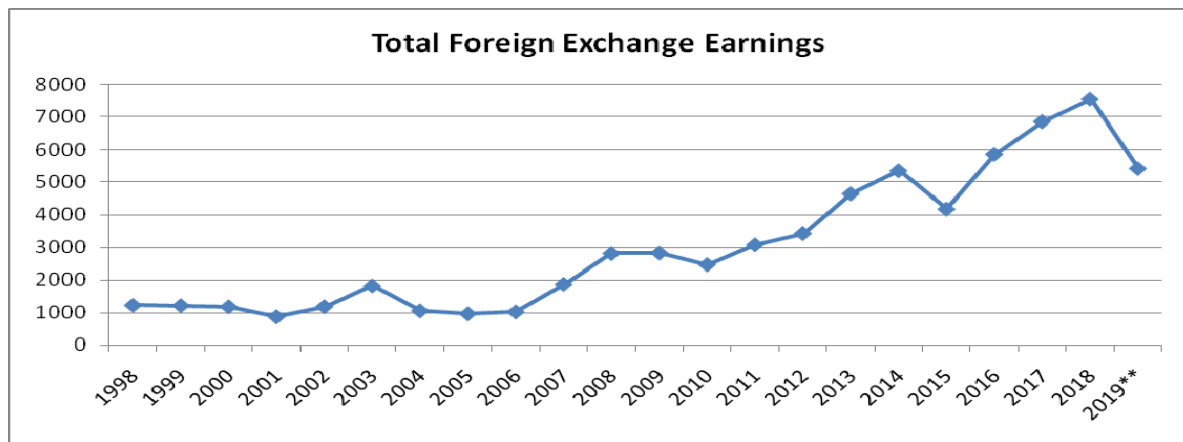
There is significant contribution of foreign exchange earning in gross domestic product (GDP) of Nepal which is shown in the Figure 6*(See Appendix –I)*.

Figure 4: *Foreign Exchange Earnings to GDP (%) from Tourism from 1998/99-2018/19*
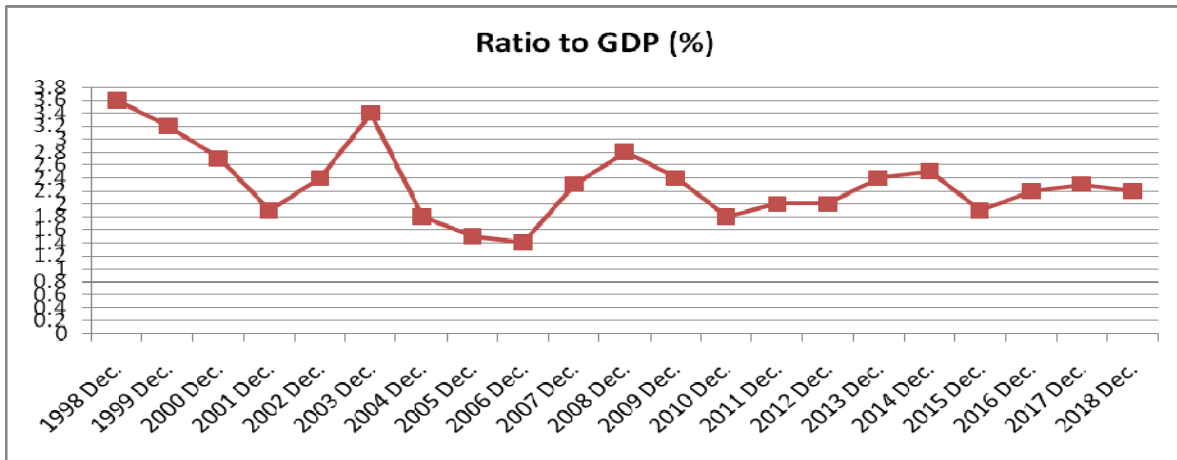
Direct Employment and Royalties from Tourism Industry

Analysis of mountaineering teams, number of mountaineers, royalty, periodic employment, and expenditures of mountaineers shows increment in number of mountaineering teams, royalty to the government, expenditure of mountaineers, and periodic employment in 2018. In 2018, the number of mountaineering teams was 280 and 2330 mountaineers*(See Appendix-I).*

Figure 5: Direct Employment from Tourism Industry from 1998/99–2019/20.
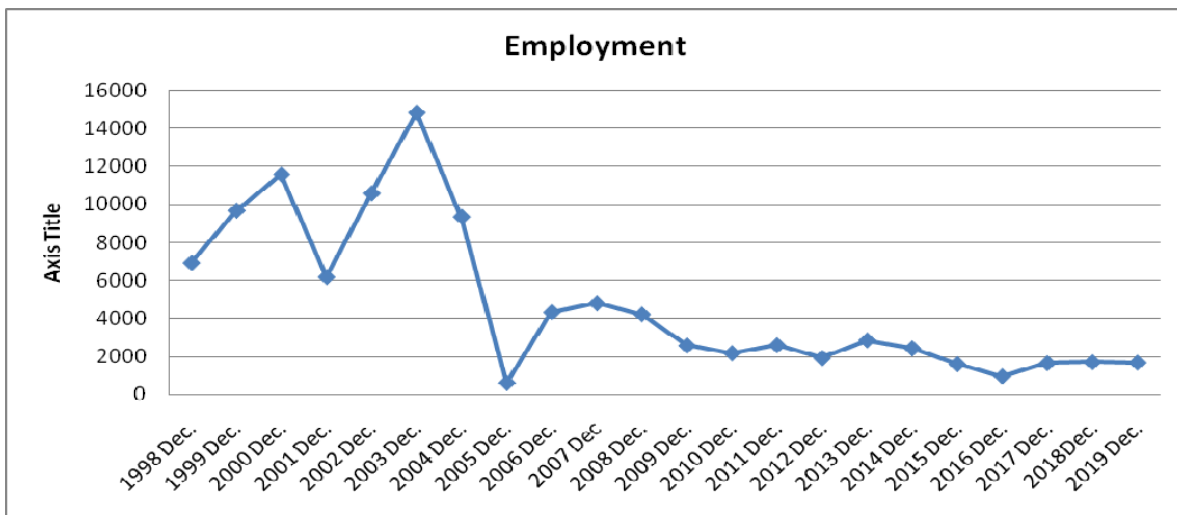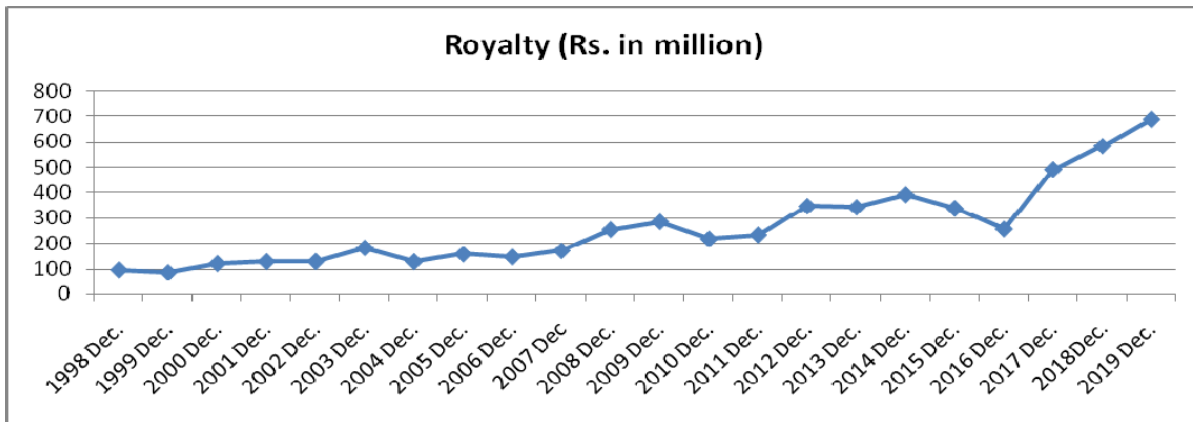

Figure 6: Royalty from Tourism Industry from 1998/99 to 2019/20.

To develop skilled human resource for tourism development, Bachelor in Hotel Management, various hotel management trainings, guide, tour travel agency and ticketing, cook, leader, water rafting demonstrator, hospitality course, and local site visit trainings are being offered. During the study periods, 35 thousand 6 hundred and 83 persons have got training related to tourism industry from the academy.The rate training data shows the fluctuation in different fiscal years. During the study periods, 35 thousand 6 hundred and 83 persons were get trainings at different areas in tourism industry related areas.

Economic Impact of Tourism Industry

There is significant economic impact of tourism industry in different aspects of Nepalese economy. The economic impact is measured in terms of foreign exchange earnings, employment generation, government royalty and contribution to GDP. To show the relationship of dependent variables and independent variables, correlation is applied and measuring the economic impact on Nepalese economy, linear regression model is applied assuming total tourists arrivals independent variables and foreign exchange earnings, employment generation, government royalties and contribution to GDP. For hypothesis testing, regression analysis was done in SPSS v22 with the following regression model.

Table 1: *Correlations Total Tourists Arrivals and Direct Employment, Foreign Exchange Earnings, Government Royalty and Contribution to GDP*

Correlations		Total Tourists Arrivals	Direct Employment	Foreign Exchange Earnings	Government Royalty	Contribution to GDP
Total Tourists Arrivals	Pearson Correlation	1	-.602[**]	.883[**]	.908[**]	-.089
	Sig. (2-tailed)		.003	.000	.000	.701
	N	22	22	22	22	21

Direct Employment	Pearson Correlation	-.602**	1	-.604**	-.580**	.557**
	Sig. (2-tailed)	.003		.003	.005	.009
	N	22	22	22	22	21
Foreign Exchange Earnings	Pearson Correlation	.883**	-.604**	1	.879**	-.060
	Sig. (2-tailed)	.000	.003		.000	.796
	N	22	22	22	22	21
Government Royalty	Pearson Correlation	.908**	-.580**	.879**	1	-.155
	Sig. (2-tailed)	.000	.005	.000		.502
	N	22	22	22	22	21
Contribution to GDP	Pearson Correlation	-.089	.557**	-.060	-.155	1
	Sig. (2-tailed)	.701	.009	.796	.502	
	N	21	21	21	21	21
**. Correlation is significant at the 0.01 level (2-tailed).						

There is highly positive correlation between total tourists arrivals and foreign exchange earnings and government royalty and negative correlation between total tourists' arrivals and direct employment and contribution to GDP.

Table 2: Regression between Total Tourists Arrivals and Direct Employment

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.602ᵃ	.363	.331	3276.93623
a. Predictors: (Constant), Total Tourists Arrivals				
a. Dependent Variable: Direct Employment				

Coefficientsᵃ						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	10467.559	1819.239		5.754	.000
	Total Tourists Arrivals	-.009	.003	-.602	-3.373	.003

The *R* value of 0.602 indicates the moderately positive relationship between total tourists arrivals and direct employment (p<0.05). Similarly, *R*-square value of 0.363 states that 36.30% change in direct employment is due to independent variable. Likewise, Standard error of the estimate of 0.003indicates the variability of the observed value of directemployment from regression line is 0.003units. The result shows that there is a significant impact of tourist arrivals on direct employment. It signifies that a change in total tourist arrivals slightly improved position of direct employment. It shows a significant association between the changes in total tourists'arrivalsondirect employment. The finding of the regression analysis between total tourists arrivals and direct employment indicates that total tourists arrivals is a significant predictor of direct employment.

Table 3: Regression between Total Tourists Arrivals and Foreign Exchange Earnings

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.883[a]	.780	.769	1004.48310
a. Dependent Variable: Foreign Exchange Earnings				
b. Predictors: (Constant), Total Tourists Arrivals				

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-1303.632	557.653		-2.338	.030
	Total Tourists Arrivals	.007	.001	.883	8.420	.000

The *R* value of 0.883 indicates highly positive relationship between total tourists arrivals and foreign exchange earnings ($p<0.05$). Similarly, *R*-square value of 0.780 states that 78.80% change in direct employment is due to independent variable. Likewise, Standard error of the estimate of 0.001indicates the variability of the observed value of foreign exchange earnings from regression line is 0.001units. The result shows that there is a significant impact of total tourist arrivals on foreign exchange earnings. It signifies that a change in total tourist arrivals improved position of foreign exchange earnings. The finding of the regression analysis between total tourists arrivals and foreign exchange earningsindicates that total tourists arrivals is a significant predictor of foreign exchange earnings. The variable of total tourists' arrivals has 88.30 %, contributed towards foreign exchange earnings.

Table 4: Regression of Total Tourists Arrivals and Government Royalty

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.908[a]	.824	.815	69270.62872
a. Dependent Variable: Government Royalty				
b. Predictors: (Constant), Total Tourists Arrivals				

Coefficients[a]				

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-82487.104	38456.592		-2.145	.044
	Total Tourists Arrivals	.562	.058	.908	9.683	.000

The *R* value of 0.908 indicatesthe highly positive relationship between total tourists arrivals and government royalty (p<0.05). Similarly, *R*-square value of 0.824 states that 82.40 % change in government royalty is due to independent variable. Likewise, Standard error of the estimate of 0.058 indicates the variability of the observed value of government royalty from regression line is 0.058 units. The result shows that there is a significant impact of total tourist arrivals on government royalty. It signifies that a change in total tourist arrivals improved position of government royalty. The finding of the regression analysis between total tourists arrivals and government royalty indicates that total tourists arrivals is a significant predictor of government royalty. The variable of total tourists' arrivals has 90.80 %, contributed towards government royalty.

Table 5 :*Regression of Total Tourists Arrivals and Contribution to GDP*

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.089[a]	.008	-.044	.58937
a. Dependent Variable: Contribution to GDP				
b. Predictors: (Constant), Total Tourists Arrivals				
Coefficients[a]				
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.449	.357		6.855	.000
	Total Tourists Arrivals	-2.221E-7	.000	-.089	-.389	.701

The *R* value of 0.089 indicates the positive relationship between total tourists arrivals and contribution to GDP (p<0.05). Similarly, R-square value of 0.008 states that 8 % change in contribution to GDP is due to independent variable. Standard error of the estimate of 0.058 indicates the variability of the observed value of government royalty from regression line is 0.058 units.To understand the change relationship between total tourist arrivals and contribution to GDP, the result shows that there is a slightly impact of total tourist arrivals on

contribution to GDP. It signifies that a change in total tourist arrivals slightly improved position of contribution to GDP. It shows a significant association between the changes in total tourists' arrivals on contribution to GDP.

Conclusion

There is a fluctuation of tourists arrivals due to change in tourism environment in different years. The average duration of stay remains between 7.92 days to 13.4 days. Foreign exchange earnings in FY 2018/19 had increased by 9.99 percent and reached Rs.7537.4 ten million. There is significant contribution of foreign exchange earning in gross domestic product (GDP) of Nepal. During the study periods, 35 thousand 6 hundred and 83 persons have got training related to tourism industry from the academy. There is significant economic impact of tourism industry different sectors of Nepalese Economy.The economic impact is measured in terms of foreign exchange earnings, employment generation, government royalties and contribution to GDP. There is highly positive correlation between total tourists arrivals and foreign exchange earnings and government royalty and negative relations total tourists' arrivals and direct employment and contribution to GDP.

The finding of the regression analysis between total tourists arrivals and direct employment indicates that total tourists arrivals is a significant predictor of direct employment.To understand the change relationship between total tourist arrivals and foreign exchange earnings, the result shows that there is a significant impact of total tourist arrivals on foreign exchange earnings. It signifies that a change in total tourist arrivals improved position of foreign exchange earnings.The result shows that there is a significant impact of total tourist arrivals on government royalty. It signifies that a change in total tourist arrivals improved position of government royalty. It shows a significant association between the changes in total tourists' arrivals on government royalty. The result shows that there is a significant impact of total tourist arrivals on contribution to GDP. The finding of the regression analysis between total tourists arrivals and government royalty indicates that total tourists arrivals is a significant predictor of contribution to GDP.

Appendix

Appendix-I: Total Tourists Arrivals, Average Day Stay, Foreign Exchange Earnings, Royalties, Contribution in GDP and Employment from 1998/99- 2019/20

Year	Total Tourists Arrivals	Average Day Stay	Foreign Exchange Earnings (Rs. in ten million)	Royalties (Rs. in Thousand)	Foreign Exchange to GDP %	Employment
1998 Dec.	463684	10.80	1216.78	95479	3.6	6942
1999 Dec.	491504	12.80	1207.39	84989	3.2	9690

2000 Dec.	463646	11.88	1171.70	119893	2.7	11587
2001 Dec.	361237	11.40	865.43	127396	1.9	6203
2002 Dec.	275466	7.92	1174.77	128030	2.4	10599
2003 Dec.	338132	9.60	1814.74	181360	3.4	14838
2004 Dec.	385297	13.50	1046.40	127072	1.8	9362
2005 Dec.	375398	9.10	955.60	156240	1.5	636
2006 Dec.	383926	10.20	1012.50	145612	1.4	4344
2007 Dec.	526705	12.00	1865.30	169830	2.3	4823
2008 Dec.	500277	11.80	2796.0	253583	2.8	4231
2009 Dec.	509752	11.60	2813.9	284123.0	2.4	2598
2010 Dec.	602867	12.70	2461.1	216560.0	1.8	2202
2011 Dec.	796215	13.10	3070.4	232532	2.0	2616
2012 Dec.	803092	12.90	3421.1	345161	2.0	1938
2013 Dec.	797616	12.50	4637.5	340821	2.4	2874
2014 Dec.	790118	12.40	5342.9	390180.56	2.5	2450
2015 Dec.	538970	12.80	4176.5	336745.75	1.9	1621
2016 Dec.	753002	13.40	5852.7	255744.70	2.2	982
2017 Dec.	940218	12.60	6852.2	490191.0	2.3	1672
2018 Dec.	1173072	12.40	7537.4	581443.9	2.2	1720
2019 Dec.	1197191	13.00	5410.4	686013.0	…	1700

Source: *Economic Survey (2000/01-2019/20)*

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