

Impact of Institutional Quality on Tourism and Economic Growth in India: A Post Covid-19 Perspective

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ABSTRACT

The intricate association between the tourism development, tourism demand and the socio-economic development, has prioritized focus towards institutional reforms across the countries, to facilitate sustainable tourism demand and socio-economic development, especially in the countries like India having vast tourism opportunities. In this backdrop, the present study attempts to analyze impact of the reforms regarding institutional quality setups on tourism demand, economic growth and development in India.

Purpose: *The present research study explores multi-faceted relationship between institutional quality reforms in tourism sector and their impact on promotion of tourism demand, as well as consequent facilitation of economic development in India. The study is significant in view of global slowdown of tourism demand due to the recent COVID-19 pandemic and introduction of wide range institutional reforms by Government of India to rejuvenate tourist inflow.*

Research Methodology: *The study used exploratory methodology approach to analyze recent trends of tourism flow in India, evaluate qualitative aspects of the institutional reforms in tourism sector and explore impact of these interventions on tourism development in India. The study uses comprehensive evaluation of data from secondary sources, including published research articles, books, institutional reports and newspapers, highlighting the dynamics of tourism reforms and economic revitalization in India, especially in after COVID-19 pandemic.*

Findings: Results and the findings of present study suggest resurgence of close-knit association of tourism development and economic growth, with significant positive correlation between institutional reforms and tourism demand. Findings of the study also highlight need for augmentation of tourism infrastructure facilities, particularly in newly explored tourist destinations, to ensure sustainable tourism and development of both formal and informal sectors of local economies.

Keywords: Institutional Quality, Tourism Demand, Economic Development, Pandemic, India

1. Introduction

Tourism is considered as a core sector of socio-economic development globally, and a sustainable strategy for socio-economic progress in the developing nations (Yfantidou & Matarazzo, 2017). It is a powerful catalyst of job creation and economic growth, especially in emerging economies. Tourism helps in achieving socio-economic objectives of eradication of poverty, reduction of unemployment, equitable regional development, development of infrastructure, stabilization of position for balance of payments, and augmenting entrepreneurial capacities and skills (Milanović and Stamenković 2012, Rout et al. 2016). Realizing potential benefits of tourism industry for boost in economic growth and development, several countries have adopted tourism development as an alternative growth and socio-economic development strategy.

Tourism development is referred to as a 'passport' of economic growth. Its contribution to Gross Domestic Product (GDP), stimulation of direct and indirect investment, generation of employment opportunities, promotion of infrastructure development activities, and facilitation of foreign exchange reserves is well-established (S. Divisekera, 2016). With valuation of US\$ seven trillion, tourism sector is the largest service industry of world vis a viz foreign exchange reserves and generation of revenue, as well as contributes ten percentage of world's GDP (World Tourism Organization, 2016). Tourism industry facilitated direct and indirect livelihood opportunities for about 292 million people across the world (The World Bank Group, 2018). It plays a vital role for achievement of macroeconomic goal of equitable growth.

Tourism and hospitality sector facilitates economic progress through multi-dimensional approach, as it provides comprehensive employment and career opportunities to thousands of persons as tourist guides, travel operators, hotel industry staff, agriculture producers, craftspeople, persons from other microbusinesses and retail business establishments, promotes import and export of goods and services of every kind, provides global recognition and marketing opportunity for local art and crafts, apart from facilitating people-to-people exchange that enables strong cross-regional and multi-cultural business collaborations. Tourism produces

employment opportunities for both skilled and unskilled manpower across different economic spheres (Blake et. al, 2008). In this way, the tourism promotion aids in creation of job opportunities, especially in rural regions where employment avenues are very limited, and helps in reduction of rural-to-urban migration. Thus, tourism is a multi-faceted sector which is seen as a human experience, social behaviour, geographic phenomenon, economic resource, and as a business.

Due to these factors and more, tourism development is considered essential for socio-economic development of emerging countries, like India, having great tourism potential. Being located centrally between West and East Asia, and vital connectivity provided by the Indian Ocean towards European countries as well as East Asian regions, the location and geographical features of the country pave the way for its regional and global importance for trade and commerce, exchange of goods and services, people to people communication, and tourist inflow, outflow as well as tourist flow across the country. The nation is blessed by a rich cultural and archaeological heritage, including half a million monuments and heritage sites, particular traditions, a typical cuisine. Thirty world famous cultural places are registered by UNESCO, while as Archaeological Survey of India has registered 3691 sites as of vital national importance. Also, the region provides tourism friendly climatic environs, vibrant government aided tourism related infrastructure facilities, as well as globally acknowledged hospitable character and respectfulness of Indians.

Several tourist flow approaches such as medical tourism, Bollywood, sports, culturally linked tourism, eco-tourism, and religion based tourism, provide significant contribution for increasing tourists' inflow. In 2018 AD, 10.56 million foreign tourists visited India and the number of foreign arrivals rose to 10.93 million in 2019 AD. The foreign tourist arrivals contributed US\$ 191.3 billion towards the country's economy, constituting 6.9% of India's GDP (World Travel and Tourism Council, 2021). The tourism industry also increased country's forex reserves from US\$ 28.59 billion in 2018 AD to US\$ 30.06 billion in 2019 AD.

While celebrating 75th year of Independence, India is cherishing the fruits of vibrant development in several economic sectors, evaluating the responsible factors and determinants of few other low performing areas, to mitigate emerging challenges of socio-economic development by facilitating sectoral evaluation and vital research inputs pertaining to every core economic sphere. Also, world is witnessing paced dynamism and volatility of economic development in view of emerging global challenges such as, global shutdown due to COVID-19 pandemic & adverse economic impacts due to widespread global warming and climate change, which has significantly slowed down the overall economic forecasts, reduced the global tourist footfall and immensely hit the core industry of tourism and hospitality.

As such, in this context, the present research study aims to analyze the intricate association between tourism promotion and socio-economic development in India, emphasizing comprehensive evaluation of impact of institutional quality reforms, as enunciated for promotion of tourism industry, on increase in tourism demand and socio-economic progress of the nation, especially in the post-Corona pandemic period, while investigating correlation of institutional quality, tourist flow, tourism demand and economic growth as the determinant factors affecting tourist inflow in India. Based upon the in-depth data analysis and research evidences, the study also aimed to provide valuable suggestions for promotion of Indian tourism industry as catalyst of socio-economic development. Institutional quality, tourism demand, and economic growth are all interconnected and can have a significant impact on each other.

Institutional quality: It refers to the quality of a country's regulatory framework and socio-political and economic institutions, such as its legal system and government effectiveness. It includes factors such as political stability, governance, rule of law, reduction of corruption, facilitation of administrative accountability and regulatory environment, that can boost tourist inflow, demand and economic development. Higher institutional quality is generally associated with better economic outcomes and higher levels of tourism demand. Good institutions can attract more tourists by creating a stable and secure environment, protecting property rights, and enforcing contracts. They can also foster economic growth by promoting investment, innovation, and entrepreneurship.

Tourism demand: It refers to the flow and number of tourists visiting a particular destination and the level of their spending. Higher tourism demand can contribute to higher economic development by creating more jobs, generating income, as well as stimulating investment. However, tourism demand can also put pressure on natural resources, cultural heritage, and social infrastructure if not managed properly.

Economic growth: It refers to the enhancement of a country's production of goods and services over a period of time. Higher levels of growth for economy will result in enhanced public employment avenues, increased household and personal incomes, and improved living standards. In turn, higher living standards can lead to increased tourism demand, as people have more disposable income to spend on travel. In summary, institutional quality can help attract tourism demand, which facilitates socio-economic development and growth. But, the interlinkage between these factors is complex, and effect of increased tourism flow on boosting economy and growth, depend on how well tourism is managed and how effectively institutions can handle the pressures that come with increased tourism. It is therefore essential for policymakers to focus on improving institutional quality while also promoting sustainable tourism development.

2. Review of Literature

To develop in-depth understanding regarding wider perspectives of Indian tourism industry, its emerging challenges and concerns, its economic impacts, as well as get vital insights into trends and potential of tourism in India especially in the post-pandemic tourism recovery period, and to analyze intricacies of multifaceted relationship between institutional quality reforms, tourism demand and economic development in India, extensive review of the available literature sources has been undertaken, including the published research articles, books, government reports, information from institutional websites and archives, reports from global institutions and newspapers. Increased focus towards globalization and people to people interaction facilitated by advent of ICT revolution of 21st century led to revival of global tourism facilities and exploration of new tourist destinations as well as facilitation of cultural tourism, religious tourism and medical tourism with active policy interventions by respective countries.

The inevitable changes were necessitated due to socio-economic interdependence of countries and multilateralism efforts by global organisations to promote cultural exchanges, international educational scholarships and united global efforts to address emerging challenges of humanity collectively. Information and Communication Technology (ICT) revolution catalyzed global tourism paradigm shift due to its unprecedented impact on every sphere of social and individual life. Academicians and researchers have been monitoring these developments focusing emerging challenges of tourism industry, nature of global tourism and impact of tourism promotion on socio-economic development of respective regions.

2.1 Tourist Flow and Tourism Potential

Hanafiah et. al (2010) analyzed approaches in tourism inflow and tourism demand in Malaysia from Asian nations during the period 1997AD-2008 AD, and suggested immense effect of distance, personal incomes, trade relations, tourism costs and prices, as well as population, on tourist inflow and tourism demand of Malaysia. In another study on evaluation of tourism inflow and demand in Malaysia from European nations, Habibi and Abbasinejad (2011) suggested a significant impact on tourism inflow because of political stability, income, accommodation capacity and habitat persistence. The research study facilitated by Othman et al. (2018), while analyzing tourism demand and tourism inflow in Malaysia from Muslim nations, establish a positive correlation between GDP, population and tourism demand, and a negative correlation between distance and tourist demand. Garín-Muñoz et. al (2000) suggested the level of income to effectively impact the tourist flow and demand function, and increased income leads to increased demand for tourism flow and services.

The market prices of the host countries are vital determinants of tourism inflow and tourism demand (González and Moral, 1995; Song et al. 2003). The other vital factors that affect tourism demand are- population of tourist generating nations as well as trade relationships between the sender and host countries (Eilat & Einav, 2004). The other vital factors of the tourist flow and demand, are climate and weather, tourism infrastructure in host country, which include communication and transportation services etc. (Khadaroo & Seetanah, 2008). Conflicts, global financial issues, and epidemic diseases impact negatively on tourism demand.

2.2 Institutional Quality and Tourism demand

Institutions comprise both formal and informal patterns and norms which manifest as behaviour approaches between the people with each other (North, 1990). The good institutional set ups have been considered effective for social and economic prosperity as well as overall human development, as they promote cooperation and trust, increase investment, as well as deter rent seeking and free riding. Bad institutional set ups lead towards stagnation of socio-economic growth, increased corruption and graft, as well as political instability. Strong circumstantial evidences reflect that a country's socio-political and legal framework and other institutional qualities, are prime factors and strong determinants of variations in levels of socio-economic growth across the nations (Acemoglu, Johnson & Robinson, 2001). Several academic and research publications as well as tourism literature, have focused towards analysis of impact of reforms in institutional quality & framework, as well as facilitate demand for international tourism flow. Yap and Saha (2013), emphasize the indispensability of success of a country's tourism sector being strongly dependent on the ensuing socio-political environment, strategies for promoting accountability and reduce corruption in administration, effective adaptation of rule of law and legal frameworks, peace and security, as well as implementation of regulatory frameworks.

Fletcher & Morakabati (2008) emphasize that most of tourists usually like the destination sites having lowest levels of personal and security risks although they even come from the countries having relatively increased public insecurity and personal risks. Similarly, Kim et. al (2018), advocate that effective and relatively stable security strategies and law & order regimes, tend to diminish uncertainties and transaction costs, lay an substantial mechanism for resolution of disputes, and hence aid in attracting tourists from across the nations.

The ever increasing academic literature in context of tourism, explores intricate relation between institutional quality and tourism demand, and advocates that a country's or region's institutional quality has been a vital determinant in promotion of tourism demand and for attracting tourist inflow, that subsequently facilitates socio-economic development.

2.3 Tourism Demand and Economic Growth

Tourism has ever been referred to as fast emerging service sector of India, having immense potential to expand further and get diversified. Due to several associated socio-economic benefits of tourism industry, such as augmentation of household incomes, increase in public employment opportunities, and facilitating growth of forex reserves, multiple countries are promoting tourism sectors as prime catalysts of socio-economic upliftment and growth (Lim, 1987, Khan et.al 1995, Sahli and Nowak, 2007). Tourism development augments foreign exchange earnings which are mandatory for import of essential goods and services, which subsequently facilitate economic growth. Evaluating this essential relationship between tourism promotion, tourism demand and economic growth, has attracted increased attention in recent tourism literature. This impact by tourism demand and effect of increased tourist inflow towards economy of a country, is mostly estimated as their impact on generation of personal incomes, public employment opportunities as well as increased forex reserves. But the socio-economic significance of tourism goes far beyond these connotations and relative socio-economic considerations.

The postulates of tourism-led growth hypothesis (TLGH) advocate that tourism demand and international tourist flow, are considered as pivotal strategic factors in terms of long-range economic prosperity and growth paradigms (Balaguer & Cantavella Jordá, 2002; Shan & Wilson, 2001).

3. Objectives of Research Study

1. Analyze correlation between tourism promotion and the economic growth in India.
2. To evaluate trends of tourist flow and tourism demand in India.
3. To explore impact of reforms in institutional quality on tourism demand & the economic growth of India.

4. Research Methodology

The research study uses exploratory research methodology to analyze intricate association between tourism promotion and the socio-economic development in India, to evaluate dynamism and trends in tourist inflow in India, especially in the Post Covid-19 period, and to comprehensively explore impact of institutional quality reforms, as enunciated by Government of India for development of tourism sector, on boosting the tourism demand and facilitation of robust economic development. The study uses comprehensive evaluation of secondary data sources such as published research papers, books, government reports, institutional publication and periodicals, websites and newspapers, highlighting the multi-dimensional correlation between the promotion of tourism and the socio-economic development within India, along with challenges as well as resurgence of Indian tourism sector in the post-pandemic period.

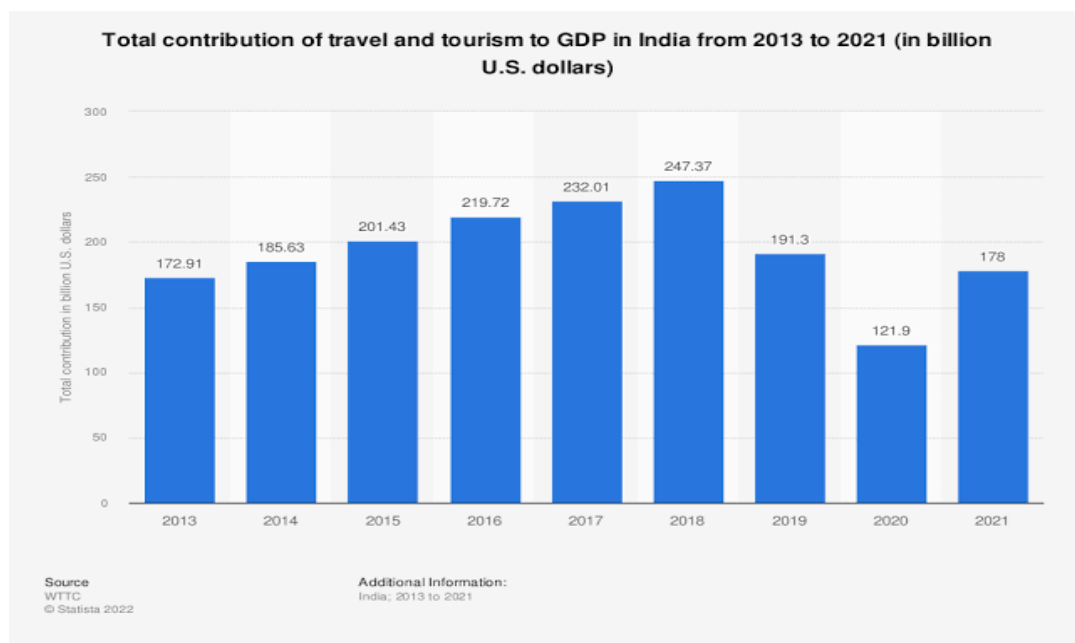
5. Results and Findings

The comprehensive analysis of available data sources, reveal significant analytical findings which explain trajectory and dynamic behaviour of Indian tourism industry, patterns and trends in tourism demand and tourist inflow, impact of reforms in institutional quality paradigms on promotion of the sustainable tourism and vibrant economic development in India. The findings also reflect several challenges of Indian tourism industry, which mandate urgent policy interventions to rejuvenate the industry from shocks of the recent pandemic and ensure boom of tourism as catalyst of socio-economic development. Overview of results & findings, is presented as under-

1. Correlation between the tourism promotion and the socio-economic development in India

The results and findings of the research study suggest close-knit association of Indian tourism industry and pattern of socio-economic development in India. This interdependence and causal relationship manifests in diverse forms such as the ever-increasing contribution and facilitation of tourism industry towards the country's GDP as reflected in following figure-1.0

Figure-1.0: Contribution of Tourism Industry to GDP in India from 2013-2021



(Source: <https://www.statista.com/statistics/313724/total-contribution-of-travel-and-tourism-to-gdp-in-india-by-segment/>)

The decline in contribution from Indian tourism towards the country’s GDP during the period 2019-2021, is attributed to global social distancing restrictions and reduced tourist footfall in view of the COVID-19 pandemic.

Tourism industry as recognized globally, is facilitator of inclusive growth as it promotes livelihood and income levels of all stakeholders associated with the sector, such as travel agents, hoteliers, cab drivers and other transporters, multiplexes, shopping malls, retailers and daily wagers, thereby facilitating growth of both formal and informal sectors of the economy.

The boost to the country’s GDP is also facilitated by augmenting Foreign Exchange Earnings/ Forex reserves, as depicted in the below figure-2.0.

Figure-2.0: Foreign Exchange Earnings/ Forex reserves from the Tourism Sector in India between 2001-2018

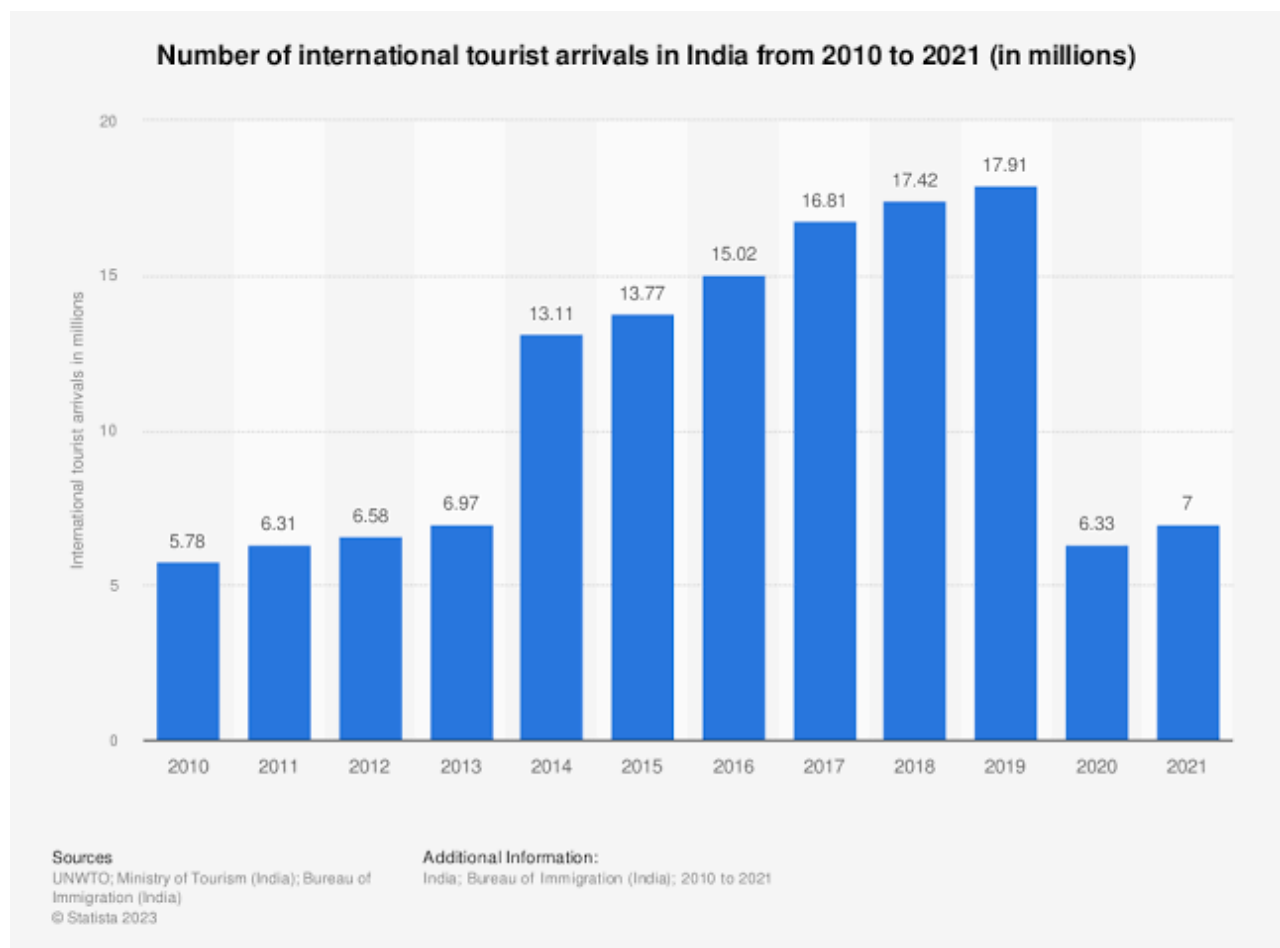


(Source: Statistics of Tourism by Ministry of Tourism, Government of India)

2. Trends in Tourism Demand and Tourist Inflow of India

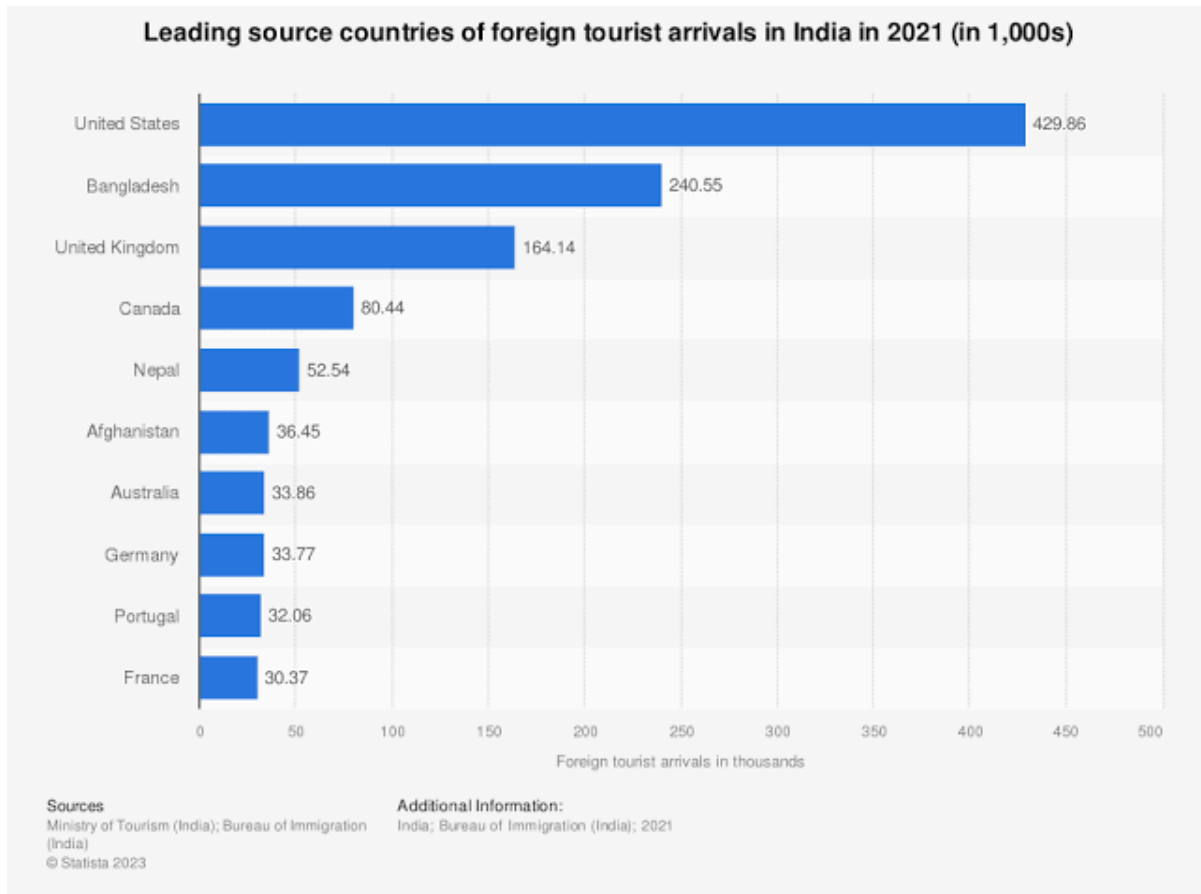
The findings of the study reveal that there is immense dynamism in Indian tourism demand, pattern of tourist inflow, fluctuations in country wise and region wise tourist arrivals within as specific time period and over longer durations, due to multiple factors. The determinants of tourist flow such as business tourism, educational tourism, medical tourism, socio-cultural tourism, religious tourism, levels of tourists' income and socio-cultural lineages of the incoming tourists, collectively impact the tourist demand, coupled with other governance and institutional determinants of the destination countries that affect the tourism demand, are discussed later in the study. The recent trends in tourism demand and tourism inflow in India are describes in figures-3.0 and 4.0 below-

Figure-3.0: International Tourists inflow in India between 2010-2021



(Source: <https://www.statista.com/statistics/305501/number-of-international-tourist-arrivals-in-india/>)

Figure-4.0: Leading source countries/ Countries of Origin for International tourist inflow in India during year 2021 AD



(Source: <https://www.statista.com/statistics/207005/foreign-tourist-arrivals-in-india-by-source-country/>)

3. Impact of reforms in Institutional Quality on Promotion of Tourism Demand & Economic Development of India

The study findings, based upon in-depth evaluation of multiple research studies conducted earlier and comprehensive analysis of allied data sources, suggest that reforms in the institutional quality have significant positive correlation with the promotion of tourism demand and economic development. The political stability, governance mechanisms, ease of service delivery, ease of doing business reforms, security, transparency and accountability of public institutions, promote tourism demand and subsequent economic growth. While as, bad institutional qualities such as political turmoil, lawlessness, public insecurity, poor governance reforms, corruption and lack of hassle free service delivery mechanisms, reduce tourism demand significantly and hamper socio-economic outcomes of tourism.

Indian government has enunciated multiple reforms in tourism sector to boost tourism demand and provide optimum services to incoming tourists, such as Tourism Skill Mission, National Tourism Policy for Sustainable Tourism, Swadesh 2.0 Tourism Scheme among others, which target multiple domains of tourism industry and aim to develop basic infrastructure at tourist resorts, launch visa-at-arrival facilities for citizens of multiple countries, development of diverse tourism packages with incentivization, training of allied manpower of tourism sector such as tourist guides, travel agents etc; facilitation of online tourism services, and adoption of multiple legislations to enhance security and legal aid to tourists etc. However, these institutional reforms need to be promoted at national scale in collaboration with regional administrations, particularly creating vibrant public awareness about these initiatives.

4. Challenges of Indian Tourism Industry

Although Indian government initiated multiple reforms to boost tourism demand and catalyze tourism industry as facilitator of the country's economic development, the tourism sector still faces multiple challenges, as described below-

1. Deficiency of basic infrastructure at tourist places, especially at newly explored tourism destinations.
2. Lack of optimum skilled and unskilled manpower in tourism sector.
3. Insufficient service providers and poor availability of online and digital services at tourist destinations, particularly in hill stations.
4. Lack of effective marketing and tourism promotion strategies.
5. Security concerns for tourists in some areas.
6. Institutional, governance and regulatory issues in context of tourism.

Conclusion

India being a developing economy, aims to reap the benefits of demographic dividend and accelerate the pace of its economic development in order to be counted as developed economy. For achieving these goals, tourism sector has huge potential to play an important role by providing several socio-economic benefits such as multi-sectoral employment, increase in per capita income, augmentation of foreign exchange earnings by way of increased import and export of goods and services, as well as development or expansion of other vital industries such as agriculture, construction, handicrafts, hotel industry, floriculture, horticulture, education sector, and Information and Communication Technology (ICT) industry etc. To ensure effective and sustainable tourism demand, several institutional reforms need to be implemented in consultation with tourism stakeholders and regional governments, to provide optimum services

to the tourists and develop holistic tourism development policy as prime catalyst of socio-economic development.

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