

Contribution of Tourism on Nepalese Economy

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Abstract: *This study aims at examining the role of tourism on economy and employment of Nepal. The study is based on secondary data/information and experience-based approach. Travel and tourism, one of the important economic activities in almost all the countries of the world, is no doubt the largest industries in Nepal and primary source of foreign exchange earnings and employment. Its direct contribution to GDP was 3.6 percent (NPR 85.2 billion) while its total contribution was 7.5 percent (NPR 177.9 billion) in 2016. Likewise, direct contribution of travel and tourism to employment was 2.9 percent and its total contribution was 6.4 percent of the total employment. The contribution to visitors export was US\$ 0.4 billion with a share of 19.0 percent of the total export. Likewise, percentage share of domestic spending, leisure spending and business spending was 3.9, 3.1 and 0.5 percent respectively. The contribution of tourism is significant however, still Nepal is unable to utilize its full potentials and can be increased and fully utilized with the development of sufficient tourism related infrastructures and promotional activities.*

Keywords: Foreign exchange earnings, gross domestic product, employment, Nepalese economy, productive business, tourism

1. Background and the Context

Tourism is one of the important economic activities in almost all the countries of the world (WTTC, 2012), which comprises the activities of persons traveling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes. It is a primary source of foreign exchange earnings in 46 out of 50 world's least developed countries (cited in Simpson, Gossling, Scott, Hall, & Gladia, 2008). In many countries tourism acts as an engine for development through foreign exchange earnings and the creation of direct and indirect employment (UNWTO & UNWOMEN, 2011) as it is credited with a significant expansion in direct employment in the service sector related to hospitality and the travel trade and indirect employment in related sectors. It can also have multiplier effects on economy and creates backward and forward linkages in the production system (Sharma, 2000). Despite the belated start of formal tourism after the restoration of democracy in Nepal in 1952, it gained remarkable growth over the years (Gautam, 2011). Currently, tourism is known as most dynamic and one of the largest industries of Nepal in terms of employment, sources of foreign exchange and revenue, and has remained an integral part of Nepalese economy. In 1962 a total of 6179 tourists travelled Nepal which reached to around 0.8 million in 2016 and earned foreign currency equivalent to NRs 55453.4 million (MoCTCA, 2016). Its direct contribution to the GDP and employment was 3.6 percent and 2.9 percent respectively in 2016 and total contribution to GDP and employment for the same year was 7.5 and 6.4 percent respectively (WTTC, 2017a).

Tourism is one of the productive business activities directed for the production of the goods and services. It provides goods and services to the customers and employment and income to the locals thereby contributing to the economy with direct, indirect and induced impacts (Gautam, 2011; Lemma, 2014). The direct impacts represent the gross domestic product (GDP) generated by activities that directly deal with tourism such as hotels, travel agents, airlines, tour operators as well as restaurants and other activities that cater to tourists (WTTC, 2012, Lemma, 2014). The indirect impacts are associated to activities undertaken by the private

tourism investment spending, government collective tourism spending, and impact of purchase from supplies. Likewise, the induced impacts represent the wider contribution of tourism through the expenditures of those who are directly or indirectly employed by the tourism sector (Lemma, 2014). Thus, it has significant contributions on economy by income flow circulation and triggering overall economic growth by stimulating income and employment in varieties of sectors of the economy. The great advantage of tourism sector is that it tends to be labor intensive, so an increase in production is normally achieved by an increase in employment (Akan, et al., 2007).

The contributions of tourism on economy of different countries of the world have been shown by varieties of studies. Analyzing the role of tourism on United Kingdom's economy, Oxford Economics (2013) states that tourism economy supports 3.1 million jobs, equivalent to 9.6 percent of UK's employment and its direct contribution was estimated to £58.0 billion in 2013. Likewise, CaixaBank (2017) claimed that tourism accounted for 16 percent of Spanish GDP, with more than 75 million tourists visiting the country in 2016. Tourism also has a major bearing on job creation. Regarding contribution of tourism on economy of Nepal, Poudel & Giri (2012) claimed that tourism sector was one of the highest contributors of foreign exchange reserves next to remittance inflow in the past. Likewise, Gautam (2011) stated that tourism causes economic growth both in short and long run. Karki (2012) confirmed that there is an important role of tourism performance on economic growth of the country. Tourism can provide income and employment opportunities in other sectors as well (Banskota, 2012). In this context, present paper aims at examining the role of tourism on economy and employment of Nepal. This paper is divided into three sections. The first section deals with background and the context, study methods and general features of the country. Section second deals with contribution of tourism on employment and overall economy of Nepal and the third section is concerned with concluding remarks.

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2. Methods and Materials

The present descriptive cum analytical study is based primarily on secondary data/ information acquired from varieties of published and unpublished sources – tourism statistics, journals, published and unpublished reports, official records and internet websites. The statistics regarding contributions of tourism on economy and employment were acquired from Nepal tourism statics 2016 published by Ministry of Culture, Tourism and Civil Aviation, Government of Nepal and World Travel and Tourism Council 2017. Other relevant information was narrated from empirical research, published reports, articles, official records, brochures, and news papers. The analysis is based on quantitative and qualitative assessment with simple tables and diagrams.

General Features of Nepal

Nepal, located in the central Himalaya in between China and India, covers an area of 147,181 square kilometers and provides home for 26.6 million people as of population census 2011 (CBS, 2012). It is a least developed country, agriculture remains principal economic activity providing livelihoods to two-thirds of its population and accounting for 28.8 percent of the GDP (GoN, 2018). The proportion of economically active population between 15-59 years of age accounts for 57.0 percent. Nepal is among the poorest and least developed countries in the world, with about 21.6 percent of its population living below the poverty line, the per capita income was US \$866 in 2016/17 (GoN, 2018). The per-capita income (PPP) was US\$ 1160 in 2014 (GoN and UNDP, 2014). The life expectancy at birth was estimated at 66.6 years and 67 percent population was literate. The position of Nepal in terms of education was fourth among SAARC countries; it was above Bhutan, Pakistan, Bangladesh, and Afghanistan (CBS, 2014). Migration has become a prominent phenomenon in the population dynamics of Nepal. A large volume of the youth population has been consistently moving abroad to different destinations of the world. The number of emigrants per thousand populations was 10.77 percent as of census 2011.

Tourism, a major provider of employment, contributed a lot on foreign exchange earnings and revenue. The spectacular landscape and diverse, exotic cultures of Nepal represent considerable potential for tourism and attracts a large number of tourists from different parts of the world. Its unique natural landscapes along with cultural beauties offers a wide scope of tourism activities. Tropical to tundra type of climate found within a short physical span (about 150 kilometers) is another asset of Nepal for the tourists of different climatic zones of the world.

Trend of Tourist Arrival in Nepal

Tourism, one of the world's largest and fastest growing industries worldwide (WTO & UN Women, 2011), is no doubt the largest industry in Nepal as well. However, the history of tourism development in Nepal is not very long. It started only after the advent of democracy in 1951. The ascent of Mount Everest-the highest peak of the world 8848m in May 29, 1953 by Tenzing Norgy and Sir Edmund Hillary was a milestone that internationally established the country's image as an attractive tourist destination (Poudel

and Giri, 2012). After that incidence, Nepal became attractive destination for all kinds of international tourists within a period of about seven decades. However, Nepal did not have any official records about tourists' inflow until 1962. The government formally started recording tourist arrivals in 1962 with 6179 visitors in the first year (Poudel & Giri, 2012). Since then, the number of tourist arrival has been continuously increasing with minor fluctuations as caused by contemporary socio-political situations of the country. Figure 1 shows the general trend of tourist arrival for the period of 10 years from 2007 to 2016.

Total number of tourist arrival was 526,705 in 2007 which slightly declined in two consecutive years (2008 and 2009) then increased to 602,867 in 2010. Considering the importance of tourism in Nepal, the government celebrated the year 2011 as Nepal Tourism Year with a goal of increasing tourist arrivals and income from tourism. However, targeted goal was not achieved in both the cases. From 2011 onwards, the number of tourist arrival increased with minor fluctuations except in 2015. In 2015 number of tourist arrival sharply declined due to devastating earthquake of April 25, 2015 and subsequent numerous aftershocks (four aftershocks were greater than magnitude 6.0, including one measuring 6.8 of May 12, 2015). The earthquake severely struck the central parts of Nepal and tourism business and livelihoods based on tourism was heavily impacted. However, flow of tourists and tourism activities resumed in 2016 with tourist arrival increased to 753,002 (MoCTCA, 2016).

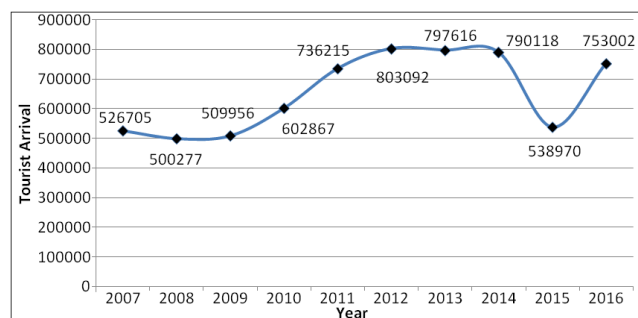


Figure 1: Trend of tourist arrival in Nepal

Of the total tourists visiting Nepal, 65 percent were for holiday and pleasure purpose. Proportion of tourists visiting for pilgrimage purpose was 11 percent followed by trekking and mountaineering (8.8 percent), business (3.2 percent), official visit (2.8 percent), conference and conventions (1.7 percent) and others (7.4 percent).

Table 1: Number of tourist by purpose of visit

Purpose	Number	Percent
Holiday/Pleasure	489452	65.0
Pilgrimage	82830	11.0
Trekking and Mountaineering	66490	8.8
Business	24322	3.2
Official	21310	2.8
Conference/Convention	12801	1.7
Others	55797	7.4
Total	753002	100.0

Source: MoCTCA, 2016

Contribution on Employment

Tourism is a major economic driver and one of the main options of livelihoods of people of Nepal (Sharma, 2000). Tourism makes a significant contribution to employment, which is composed both of the self employed and employees. As reported in the Tourism Employment Survey 2014, in Nepal, about 5 percent of the tourism personnel were self employed and 95 percent of the personnel were employees (MoCTCA, 2014). A large proportion of national workforce is involved directly or indirectly in providing different facilities to the tourists. There are four types of agencies directly involved in tourism sector with a view of providing facilities to both tourists of domestic and international origin. These include travel agencies, trekking agencies, rafting agencies and tourist transportation service. Likewise, trekking guides, tour guides, and river guides are the personnel directly related to tourists' service. Besides, many people are involved in industries, micro-enterprises, transportation and other tourism related activities in producing goods and services to the tourists. Table 2 shows the scenario of direct involvement of agencies and manpower in tourism sector.

A total of 3444 registered travel agencies were involved in providing facilities to the tourists in the country up to 2016. Likewise, number of registered trekking agencies was 2367. Number of registered rafting agency and tourist transportation service agency was 72 each. Likewise, number of people involved as tourist and trekking guide from registered agencies was 13049 and 3717 persons respectively. Besides, many people are directly involved as porters, cooks and others. People of training institutes and schools, production and marketing of local products, banking, music, hawkers of curio products and the like are also involved in tourism sector.

Table 2: Agencies and personnel involved in tourism

Description	Number
Travel agency	3444
Trekking agency	2367
Rafting agency	72
Tourist transportation service	72
Trekking guide	13049
Tour guide	3717
River guide	207

Source: MoCTCA, 2016.

Hotel/restaurant is another important sector in terms of persons involved and facility provider for tourists. A total of 1105 hotels (with 38,242 beds) of tourist standards including star and non-star have been providing accommodation to the tourist in the country in 2016. Besides, a large number of people are involved in providing home stay facilities to the tourist. Total beds available in registered home stay in Nepal were estimated to 878 in 2016. Of the total beds, 228 beds belong to private house and 650 belong to community ownership category. Registered home stay facilities were available in 10 districts, mostly adjacent to the Kathmandu valley. Besides registered home stay facilities mentioned above, home stay facilities are available in number of other districts like Lamjung, Parbat, Myagdi, Syangja and others as well without registration. The number of house providing home stay facility without registration is estimated to be

more than the registered ones; however, the exact number of unregistered home stay providers is not known. The contribution of home stay can clearly be seen in tourism development especially in rural areas (village tourism) where tourist standard hotels are not available. However, the exact contribution of home stay facilities on local and national economy is not known. Transport sector is another important sector for providing facilities to the tourist. In a rough estimate, more than 500,000 people are directly or indirectly involved for their livelihoods one way or the other in tourism sector.

Tourism industry has important contributions on employment generation. WTTC (2017b) states that travel and tourism has generated 427,000 jobs directly in 2016 (2.9 percent of total employment) and this is forecasted to grow by 6.0 percent in 2017 to 452,500. This includes employment by hotels, travel agents, airlines and other passenger transportation services. It also includes the activities of the restaurant and leisure industries directly supported by tourists (WTTC, 2017b). Likewise, The total contribution of travel and tourism to employment (including wider effects from investment, the supply chain and induced income impacts, was 945,000 jobs in 2016 (6.4 percent of total employment). This is forecast to rise by 5.4 percent in 2017 to 996,000 jobs (6.4 percent of total employment). As reported by WTTC (2017b), direct contributions of travel and tourism to employment was 2.9 percent in Nepal while it was bit higher in India and Srilanka with 5.8 and 4.8 percent respectively in 2016. But the total contribution of travel and tourism to employment was 6.4 in Nepal, while it was 10.4 for Srilanka and 9.3 for India (WTTC, 2017b).

3. Contribution on Economy

As in many other counties of the world, tourism is fastest growing industry in Nepal. The contribution of tourism on economy and employment is significant and has been growing in recent years with the increase in tourist arrival and average length of stay. Over the decades, the contribution of tourism on economy has steadily been increasing in Nepal and tourism has remained an integral part of economy and an economic driver. Travel and tourism has significant contribution on Nepalese economy as it creates various direct, indirect and induced effects in the economy (WTTC, 2017b). Table 3 shows the trend of direct and total contribution of travel and tourism to GDP. The contribution of travel and tourism to GDP is steadily increasing except in the year 2016. Likewise, total contribution of travel and tourism to GDP also has similar trend.

Table 3: Contribution of tourism to GDP in Nepal (NPR Billion)

Contribution	2011	2012	2013	2014	2015	2016
Direct to GDP	78.2	73.4	80.0	87.5	86.3	85.2
Total to GDP	159.9	150.4	163.5	179.0	178.5	177.9

Source: WTTC, 2017^b

As reported in WTTC (2017), Nepal ranks 92 in terms of direct contributions of travel and tourism to GDP in 2016 while neighboring countries Srilanka and India rank 55 and 105 respectively. The ranking of direct contribution of travel

and tourism to GDP for China and Bangladesh was 137 and 150. Likewise, the total contribution of the sector to GDP was 7.5 in Nepal while the share of direct contribution to GDP for Srilanka and India was 11.4 and 9.6 percent respectively.

The contribution of tourism on national economy is reflected in different components of the economy. The contribution of tourism as percentage of GDP, as percentage of foreign exchange earnings, percentage share on merchandise exports and share in total value of exports of goods and non-factor services for the period of 10 years from fiscal year 2006/07 to 2015/16 is shown in Table 4. The pattern of foreign exchange earnings shows increasing trend with little fluctuations. The sum of foreign exchange earnings from tourism declined in 2010/2011 as compared to the previous year. This might be due to extreme political unrest in the country caused by decade long Maoist movement. Tourism activities were almost paralyzed in many parts of the country for security reason as Maoist activities were surging then. Again in 2016, foreign exchange earnings from tourism declined owing to devastating earthquake in 2015. Tourism activities in Nepal were heavily disrupted after devastating earthquake of May, 2015. The earthquake caused widespread damage in large parts of central Nepal covering 31 out of 75 districts with huge loss of human lives, physical infrastructure, and natural resources. As estimated in Post Disaster Need Assessment Report, about eight million people, almost one-third of the total population of the country, were impacted. As a result, both tourist arrival and foreign exchange earnings from tourism activities sharply declined at that time.

Table 4: Total earnings from tourism and its share on national economy

Year	Total earning (millions)	As % of GDP	As % of total foreign exchange earnings	As % of total value of merchandise exports	As % of total value of exports of goods & non factor services
2006/07	10125.3	1.4	3.8	16.5	10.6
2007/08	18653.1	2.3	5.6	30.1	17.9
2008/09	27959.8	2.8	6.5	40.0	22.8
2009/10	28138.6	2.4	6.0	44.5	24.6
2010/11	24610.7	1.8	4.9	35.8	20.2
2011/12	30703.8	1.8	4.5	37.7	20.0
2012/13	34210.6	2.0	4.5	39.8	18.9
2013/14	46374.9	2.4	4.7	45.9	20.5
2014/15	53428.8	2.5	4.9	54.4	21.6
2015/16	41765.4	1.9	3.7	55.8	19.6

Source: MoCTCA, 2016.

The fluctuations in terms of share of tourism incomes to GDP are evident in the table. The share of tourism on GDP started to decline from fiscal year 2008/09 and the situation continued up to the fiscal year 2011/12 followed by slight increment from 2012/13 onwards. However, it declined again in 2016. The reasons for these fluctuations are first decline in tourist arrival due to security reason of the decade-long Maoist movement and second, due to disruption of tourism activities as caused by devastating earthquake of 2015. Similar trend can be seen in percentage share of tourism on total value of merchandise exports and

percentage share of total value of exports of goods and non factor services.

The summary of travel and tourism contributions to Nepalese economy for the year 2016 is presented in Table 5. The direct contribution of travel and tourism to GDP was US\$ 0.8 billion with a share of 3.6 percent. Likewise, the total contribution of the sector to GDP was US\$ 1.6 billion (7.5 percent). The direct and total contribution to employment was 2.9 and 6.4 percent respectively. Contribution to visitors export was US\$ 0.4 billion with a share of 19.0 percent of the total. Likewise, percentage share of domestic spending, leisure spending and business spending was 3.9, 3.1 and 0.5 percent respectively. Tourism sector contributed 3.0 percent share on total capital investment (Table 5).

Table 5: Summary of tourism contributions in 2016 at constant price and exchange rate

Description	USD Billion	% of total
Direct contribution to GDP	0.8	3.6
Total contribution to GDP	1.6	7.5
Direct contribution to employment	427	2.9
Total contribution to employment	945	6.4
Visitors export	0.4	19.0
Domestic spending	0.9	3.9
Leisure spending	1.1	3.1
Business spending	0.2	0.5
Capital investment	0.2	3.0

Source: WTTC, 2017^b

4. Conclusions

Tourism is one of the largest industries in Nepal in terms of employment, sources of foreign exchange and revenue generation. It is not only an important source of national income and employment but also one of the major sources of livelihood of the people of Nepal as many people directly or indirectly based their livelihoods on tourism related activities. The overall contribution of tourism to the economy showed increasing trend with some fluctuations of tourist arrival owing to the socio-political situation of the country. However, its contribution to national economy and employment is significant and ever been increasing as compared to declining contribution of agriculture that was previously known as the backbone of national economy, and the industrial sector. Even the contribution of tourism is not fully acquired considering its potentials. The unique and spectacular landscape and diverse, exotic cultures of Nepal represent considerable potential for tourism. This can only be achieved through the development of sufficient tourism related infrastructures and varieties of promotional programs by which a large number of tourists attracted and lengthen their stay in Nepal.

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