

Prospects Of Selling Nepal's Tourism in Indian Market

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INTRODUCTION

Tourisms is one of the major activities in the modern world. Only in the year 1995, total number of people in the world travelling various destinations was 415, 726 thousands and world tourism has generated total receipts of US\$371,682 millions. Even in Nepal, 18 percent in 1995/96 to 37 percent in 1982/83 of total foreign exchange earning accrue from tourism industry which accounts for about 4 percent of GDP and in addition, provides direct and indirect employment to a number of people in the country (Paudyal 1998). Since the Government does not record employment information, it becomes rather a guess work that how many people around the year and seasonally get jobs in tourism sector. Total number of visitors in Nepal was 363,395 in 1995, of which 117, 260 visitors accounting for 33.2 percent were from India. This figure in 1986, only ten years back, was different since the number of visitors came to this country from the total markets was 2,23331 and visitors from India were 55195 accounting for 24 percent (Paudyal 1998).

India is not only the largest tourist in terms of its population and economic strength in the SAARC region, but also neighbouring country of Nepal with open borders to the east, west and south. As India is most populous country inhabited by people with fastly growing prosperous middle class families, the potential number of indian visitors to Nepal could be much more larger than the current actual number of visitors. For this reason, policy drive toward attracting more Indian visitors could be a panacea, to some extent, for correcting Nepal's growing adverse balance of payment with India. The country has already launched the year 1998 as *Nepal Visit Year*. Considering the heavy contribution made by Indian vistors to Nepalese economy, Indian tourist arrival should not necessarily be overlooked, and instead, a programme to increase the number of arrival from India is suggested to be launched at earnest. In this context a study on

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Indian market may be relevant, and could be, to some extent, a desirable attempt.

INDIAN ARRIVALS AND MARKET TRENDS

Indian arrivals occupied the top most rank in total tourist arrivals in Nepal for several years. It is believed that the actual arrivals are much more higher than this recorded number, which includes only the arrivals by air. Considering the open borders and, religious and cultural ties between India and Nepal, it seems reasonable to guess that the actual number of visitors from India could be much more higher than the recorded one. Indian market share in total arrivals in Nepal always remained one of the top in the whole history of tourist arrivals. However, its market share accounted for 19 percent in 1974 which rose to about 31 percent in 1982 and remaid almost stagnant over the year, and their arrivals had declined to about 25 and 23 percents in 1986 and 1990 respectively (Table 1). The arrivals in these year might have been influenced by trade and transit problems between India and Nepal.

Table 1

Indian Tourist Arrivals And Market Share

Year	Total Arrivals Number	Indian Arrivals Number	Percentage of Indian Arrivals
1974	89838	17237	19.2
1978	156123	30487	19.5
1982	175448	54201	30.9
1986	223331	55195	24.7
1990	254885	59764	23.4
1991	292995	92506	31.6
1992	334353	106574	31.9
1993	293567	83362	28.4
1994	326531	102540	31.4
1995	363395	117260	32.3

Source : HMG/N Economic Survey 1995-96.

Table 2
Compound Growth Of Indian Arrivals And Total Arrivals

Period	Growth Rates of Indian Arrivals Percentage	Growth Rates of Total Arrivals Percentage
1974	-	-
1975-77	16.5	21.30
1978-81	96.2	71.80
1982-86	38.0	16.40
1987-90	7.50	34.70
1991-94	64.5	23.10
Compound Growth Rate (1974-95)	9.10	6.50

Source : DOT/N, Nepal Tourism Statistics 1995 and 1996.

Table 2 shows that the growth rates of Indian arrivals accounted the highest for 1978-81 period and the lowest for 1987-90 period. The overall average annual compound growth rate can be characterised as moderate and spontaneous one. This reveals the fact that the growth of Indian arrivals was not so promising in the past and it was largely suffered from gross negligence of government which is reflected in tourism policies taking *tourism as a milking cow industry*.

The tourist arrivals by purpose of visit is shown in Table 3, which reveals that the highest percentage share accounted for holidays and pleasure, 70-75 percent and the second highest for business, 9.1-9.7 percent the third highest position for the official visitors, 8-9 percent. Although the pilgrimage arrivals accounted for 3-6 percent share of the arrivals, it is the most important purpose of visiting Nepal by Indian people, however, the majority of visitors for this purpose come from the land route.

Table 3
Tourist Arrivals From India By Purpose of Visit 1992-94.

Purpose of Visit	1992	share	1993	share	1994	share
Holidays/Pleasure	80330	75.4	58672	70.4	73380	71.6
Trekking/Mountaineering	2390	2.2	-	-	-	-
Business	9710	9.1	8812	10.6	9922	9.7
Business	9710	9.1	8812	10.6	9922	9.7
Pilgrimage	4528	4.2	5502	6.6	2677	2.6
Official	9130	8.6	6597	7.9	9094	8.9
Convention/conference	341	0.3	3189	3.8	3096	3.0
Others	145	0.1	590	9.7	4371	4.3
Total	106574	100	83362	100	102540	100

Source : Department of Tourism/N, Nepal Tourism Statistics 1994.

FACTORS AFFECTING INDIAN ARRIVALS

Seasonality And Other Qualitative Factor

One of the great merit of Indian visitors is very similar to that of domestic tourism as it sustains the industry during lean period of tourist arrivals from overseas. Domestic tourism in Nepal is virtually insignificant and Indian tourist arrivals to some extent have filled up this gap. In this regard Indian arrivals are double blessing to Nepalese economy. Table 4 presents the seasonality index including ten years arrivals from India to Nepal. Accordingly summer season, which includes April, May and June, recorded the highest index accounting for 137 and January, February and March the lowest accounting 76 for India. The summer season is know as the lean season for overseas market since arrivals from the west is the lowest in this season. Therefore, arrivals from India help tourism industry in Nepal to sustain in lean months such as summer season.

Domestic tourism in India has rapidly grown in its number and spread since the later half of 1980s. Similarly outbound tourists from the country grew speedly. Nepal remained always the topmost destination in South Asia for Indian visitors, accounting 16 percent in 1985, which rose to 39 percent in 1994 (DOT 1994). A number of factors that make the growing Indian arrivals in the country can be categorised as, vacation, business, relaxation and pleasure, weather, ethnic and adventure. Most Indians make family trip to Nepal in summer season, which satisfied most of the above mentioned motives, since the schools in India are also closed for hot summer, and climate in most parts of Nepal is relatively moderate compare to India. It is economy also because Nepal is inexpensive and affordable to middle class Indians to visit Nepal with their families. Visiting families, friends and relatives also constitutes a significant percentage in Indian arrivals to Nepal. Besides, the facilities to Indians to cross the open borders without visa and foreign exchange helped to promote the arrivals. Moreover, Indian visitors' motives to visit Kathmandu in the past, remained largely to buy foreign goods. Others came for gambling in casino and change their black money into white. A large number of the Indian visitors came as the pilgrimage and others for business purposes, however, most of the arrivals as a pilgrimage and other purposes are unrecorded since they enter into Nepal through land routes. Table 5 reveals the importance of Indian arrivals since Indian market is largely

responsible for smoothing out the hotel bed occupancy rate, and thereby sustaining the tourism industry in the lean season of the year.

Table 4

Indian Tourist Arrivals And Seasonality Index 1985-95

Months	Index	Mean of Arrivals 1985-94
I. Jan. Feb. Mar.	76	13790.4
II. Apr. May. Jun.	137	24863.1
III. July, Aug., Sept.	86	15572.4
IV. Oct. Nov. Dec.	102	18587.8
Σ Mean/4=100	100	18203.4

Source : Calculated by the Author Based on Nepal Tourism Statistics 1994, DOT.

Table 5

Hotel Bed Occupancy Rates By Indian Tourists

Month	1984/1985	1985/86	1986/87
January	42.74	43.13	47.52
February	45.94	47.56	50.83
March	53.95	58.36	61.13
April	53.05	55.71	59.01
May	47.82	46.48	49.09
June	37.12	38.30	39.18
July	27.66	31.07	33.18
August	33.93	38.05	37.61
September	42.52	41.85	46.74
October	70.19	70.58	73.25
November	65.46	72.57	71.96
December	53.68	56.13	58.40
Yearly Average	47.96	49.88	52.47

Source : Nepal Rastra Bank 1988.

Estimating The Tourism Demand Function

Every factors influencing tourist arrivals can not be quantified. However, income and price variables can be measured quantitatively. Some

regressions have been run on the time series data. The number of visitors from India is taken as dependent variable and percapita real GDP of India and real exchange rate between Nepal and India are taken as measure of relative price in the study (Morley 1991).

$$\text{vis} = f(\text{rexcr}, \text{rypc}) \text{ --- (i)}$$

where vis = tourist arrivals from India, rexcr = real exchange rate, and rypc = per capita real GDP. On this functional form of tourism demand we can formulate loglinear model, which is widely used to estimate the demand function in tourism and transport economics. The model to estimate above demand function is as follows:

$$\text{Model In vis} = \alpha + \beta \ln(\text{rypc}) + \beta \ln(\text{rexcr}) + \epsilon \text{ --- (v)}$$

$$\Delta \text{vis} / \Delta \text{rypc} > 0$$

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where $\ln \text{vis}$, $\ln \text{rypc}$, $\ln \text{rexcr}$ and ϵ are natural log of tourist arrivals, per capita real GDP, real exchange rate and stochastic error terms respectively. Tourist arrivals (vis) is assumed positively related with percapita income (rypc) and symbolically, this is expressed by the terms $\Delta \text{vis} / \Delta \text{rypc} > 0$ in the model. Unlike the price of commodity, real exchange rate between India and Nepal is assumed positively related i.e., $\Delta \text{vis} / \Delta \text{rexcr} > 0$. It is because higher the real exchange rate in Nepal is the relative strength of Indian currency and cheaper will be the price of tourism products in terms of Indian currency in Nepal and thereby Indian demand for Nepalese tourism will increase with a higher exchange rate and vice versa.

Sources of Basic Data

Data used here for the estimation of tourism demand function were extracted from national and international publications. Population, exchange rates and GDP data were collected from International Financial Statistics Year Book 1996, and number of Indian visitors to Nepal is taken from Nepal Tourism Statistics 1994.

Empirical Findings

The empirical finding on the above tourism demand function are given below:

Time Period 1974-93.**Model I**

$$\text{In vis} = -2.25 + 3.42 \text{ In rypc} + 0.71 \text{ In rexcr}$$

$$(1.36) \quad (0.65) \quad (0.53)$$

$$t = -1.65^{****} \quad 5.25^* \quad 1.33$$

$$\text{Adj. } R^2 = 0.71$$

Model II

$$\text{In vis} = -2.99 + 3.77 \text{ In rypc} + 1.03 \text{ In rexcr} - 0.24 \text{ D1}$$

$$(1.42) \quad (0.68) \quad (0.56) \quad (0.17)$$

$$t = -2.11^{***} \quad 5.56^* \quad 1.82^{***} \quad -1.43^{****}$$

$$\text{Adj. } R^2 = 0.73$$

Model III

$$\text{In vis} = -2.84 + 3.70 \text{ In rypc} + 0.95 \text{ In rexcr} - 0.22 \text{ D1} - 0.19 \text{ D2}$$

$$(1.47) \quad (0.70) \quad (0.59) \quad (0.17) \quad (0.30)$$

$$t = -1.93^{***} \quad 5.28^* \quad 1.63^{***} \quad -1.27 \quad -0.64$$

$$\text{Adj. } R^2 = 0.72$$

Notes *significant at 1% level ** significant at 5% level *** significant at 10% level and **** for 20% level

The estimation of various models shows that the real income variable is the most influential variable in the case of Indian arrivals to Nepal. The estimated coefficient is significant at 1% level of significance. Accordingly about 1 percent increase in income per head of Indian people brings about 4 percent rise in the tourist inflow to Nepal. Income elasticity of Indian demand for Nepalese tourism appears rise in the tourist inflow to Nepal. Income elasticity of Indian demand for Nepalese tourism appears to be highly elastic. It is according to the prior expectation that the plausible factor that determines the Indian arrivals is the increase in percapita income. The rise of prosperous middle class family in India may be the reasons for increasing tourist flow to Nepal for last few years. However, another important variable, exchange rate between Nepalese currency and Indian currency is found statistically significant at 5,10 and 20 percent

levels. And in all models the coefficients for real exchange rate are found relatively low. Comparatively model II gives a higher coefficients for both real exchange rate and real GDP per head and a higher R^2 . The higher R^2 demonstrate the higher correlation between tourist arrivals and these variables. Accordingly, 73 percent of variation in the tourist arrivals is explained by the variations of real GDP per capita, exchange rate and dummy variable D1. However, the coefficient for the dummy variable is very low.

SOME ISSUES AND POLICY IMPLICATIONS

Deficit Trade And Tourist Arrivals

The foreign trade is related with tourism in one way or in another way. A tourist purchases local made souvenirs for his/her friends and family back home, consumes and uses local food and services. These together increase the sale of local commodities and services in the host countries. It is thus export trade increases with an increase in the tourist arrivals. Nepal has increasingly been facing the problem of growing trade deficit with India and with the rest of world. The deficit trade with India grew even faster after the reinception of multiparty political system in the country. In view of this, the growth of Indian arrivals can be a good source of increasing the earnings of Indian currency which in turn could be utilised in financing trade deficit with India. However, the growth of such deficit has superseded the growth of Indian arrivals in the country for the last few years in one hand, but on the other, Nepalese tourism products suffered from the higher import content. It implies that an increase in the tourist arrivals not only brings the increase in export trade but also increases in import trade as well, because it is necessary to import the goods and services to satisfy tourists' demand. Thus a country with higher import content is less benefited from the tourism export, since the benefits accruing from tourism return to the tourist generating countries with the tourists.

Quality Products And Trickle Down Effects

Supply of tourism is largely concerned with the availability of quality tourism products on the sustainable basis. However, the quality of tourism products in Nepal is often reported poor in comparison to its competing destinations. It may be argued that quality of tourism products is largely related with trickle down effects. Because a low quality service includes semi processed local products and unskilled manpower such as porter,

small hotels, motels, shopkeepers and vendors. In this context, the trekking tourism seems to have more trickle down effects since local poor people are largely benefited from the spending of the trekkers. So far as the Indian tourists is concerned only a few tourists from India seem to be interested in trekking and mountaineering. In view of this, Indian tourists generate a small trickle down effects. However, majority Indian arrivals are from the middle class family and accommodate themselves in non-starred hotels in Nepal and since non-starred hotels provide relatively less import content services to the tourists, local economy appears to be more benefited from the Indian arrivals. From this point of view, Indian arrivals create relatively higher multiplier effects and trickle down effects.

Indian Versus Dollar Tourists

Nepalese tourism planning and policy appears to be largely bias towards the white skinned dollar tourists. However, the Indian arrivals occupy very significant place both in terms of foreign currency earnings and number of arrivals. Tables 1 and 3 reveal that more than 30 percent of total arrivals were Indian and of this 75 percent come for the pleasure and holidays. The government seemed not to have any strategy and policy to develop tourism products targeting this section of arrivals from India. As it is mentioned above that Indian arrivals by land outnumbered those of arrivals by air route, and of these majority are reported as pilgrimage tourists, so creation and production of tourism products targeting this section of tourist arrivals in this context is warranted.

Capturing Indian Market

India is huge and strategically very important market for tourism development of Nepal. Compared to the size of Nepalese tourism, it is market with abundant potentiality. The empirical study, which established income variable as an important variable in the case of Indian market, reveals that the emerging prosperous middle class families from India comprise major portion in increasing total tourist arrivals from India. In other words, the increased living standard of middle class families in India vis-a-vis more Indian tourists arrivals in Nepal. Therefore, HMG/N should develop the appropriate strategies so as to capture the Indian market addressing largely this variable for the development of the Nepalese tourism as a whole. In future, Nepalese tourism planning and policies must

pay special attention to this very promising but currently equally neglected area of Nepalese tourism trade.

Exhausted Places And Short Length of Stay

Nepalese tourism suffers from the short length of stay. A few already exhausted tourist places is said to be responsible for this. The deliberate planning to develop new places and tourism products is warranted. Such development should be done only after vigorous projection of the tourist arrivals based on past trend and forecasting future events. The problem of mismatch between supply and demand often occurs in the tourism sector due to the lack of deliberate planning.

CONCLUSION

It is difficult to estimate how many people are benefited from tourism, yet the economy is said to be benefited from the foreign exchange earnings. The government record shows that out of 48 percent of foreign exchange share in total export earnings, 20.6 percent of the foreign exchange earnings accrued from tourism for the period of 1986/87-1995/96. (Paudyal 1988). Moreover, tourism earnings contributed 3.4 percent to the GDP during the same period. However, such gross information are somewhat misleading, because, these actually do not present realities in how much an economy is benefited or harmed in net terms since such figures do not submit the social cost and benefit analysis.

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