



Economic Development through Tourism: Evidence from India's Tourism Sector

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ABSTRACT

Tourism has emerged as a significant driver of economic growth and employment in developing economies, including India. This study investigates the financial contribution of tourism to India's GDP, employment generation, and regional development, particularly in the post-pandemic context. Using secondary data from national and international sources, the study applies descriptive statistics, trend analysis, correlation, and multiple regression techniques to analyze key tourism indicators. The findings reveal that tourism makes a significant contribution to GDP and employment, with foreign tourist arrivals and tourism-related jobs being strong predictors of economic performance. The study concludes that tourism has immense potential for sustainable economic development and recommends strategic planning to capitalize on this potential.

Introduction:

Tourism has emerged as one of the fastest-growing sectors globally, making significant contributions to economic development, job creation, and cultural exchange. For developing nations like India, tourism is not merely a leisure activity but a vital economic engine that generates income, fosters regional development, and enhances foreign exchange earnings. India, with its diverse cultural heritage, natural landscapes, historical monuments, and spiritual destinations, possesses immense potential to attract both domestic and international tourists. Over the past decades, the tourism sector has increasingly contributed to India's Gross Domestic Product (GDP), providing millions of employment opportunities and strengthening infrastructure development.



The economic impact of tourism is multi-dimensional. It stimulates demand in related industries such as transport, hospitality, handicrafts, and food services, thereby creating a multiplier effect on the economy. Moreover, tourism promotes inclusive growth by creating livelihood opportunities in both urban and rural areas. The post-pandemic recovery has further highlighted the sector's resilience, as it has adapted to new travel behaviors, digitalization, and sustainable tourism practices. Despite its potential, regional disparities persist as a challenge, with certain states, such as Kerala, Tamil Nadu, and Goa, benefiting more than others. This calls for strategic planning, policy support, and sustainable practices to harness the role of tourism in driving balanced economic development across India.

Review of Literature:

The role of tourism in economic development has been extensively studied in both global and Indian contexts. UNWTO (2019) highlighted that tourism accounts for nearly 10% of global GDP and provides one in ten jobs worldwide, reinforcing its significance as a key growth sector. Du, Lew, and Ng (2014) extend the tourism-led growth hypothesis (TLGH) by testing whether tourism acts as an independent driver of growth or works through standard income determinants like capital accumulation, education, and R&D. Using cross-sectional data from 109 countries (1995–2011) and applying both OLS and quantile regressions, the authors find that while tourism is positively associated with GDP per capita, its explanatory power disappears once standard income factors are included. This suggests that tourism supports growth mainly by complementing broader economic development strategies, aligning with findings from earlier works such as Balaguer & Cantavella-Jordá (2002) and Lee & Chang (2008). Min, Roh, and Bak (2016) show that leisure tourism stimulates economic growth in low-income countries, but its impact diminishes as economies develop. Their study highlights the need to distinguish leisure from business tourism, offering more profound insights into the tourism-led growth hypothesis. Industrial tourism, originating in Europe in the 1960s (Hospers, 2002; Edwards, 1996), has evolved into a strategic tool for firms to strengthen brand equity through awareness, associations, quality, and loyalty (Aaker, 1991; Keller, 1993). Scholars emphasize that it not only drives economic regeneration but also enhances consumer-brand relationships via experiential marketing (Schmitt, 1999; Ogar, 2012; Chow et al., 2017). Chow, Ling, Yen, and Hwang (2017) show that industrial tourism strengthens brand equity by enhancing awareness, perceived quality, associations, and loyalty. Their study highlights interactive experiences and transparent processes as key strategies for building strong consumer-brand relationships. World Travel and Tourism Council (WTTC, 2020) reported that India's tourism and hospitality industry supported over 40 million jobs, underlining its labour-intensive nature. Several studies have also highlighted challenges. Kumar & Singh (2019) noted the uneven growth of tourism across Indian states, attributing disparities to



infrastructure, governance, and promotional strategies. Chakraborty and Mukherjee (2021) emphasized the importance of sustainable tourism, warning that unchecked growth can lead to environmental degradation and cultural dilution. Post-pandemic analyses, such as those by Sharma (2022), emphasized the importance of digital adoption, health protocols, and domestic tourism as critical factors for recovery.

Significance of the study:

This study holds significant relevance in the context of India's evolving economic landscape, where tourism has become a key driver of growth, employment, and regional development. By quantitatively assessing tourism's contribution to GDP, employment generation, and foreign exchange earnings, the research provides valuable insights for policymakers, industry stakeholders, and development planners. In the aftermath of the COVID-19 pandemic, understanding the resilience and recovery of the tourism sector is crucial. This study captures those dynamics, highlighting the sector's potential to drive inclusive and sustainable growth.

Objective of the study:

To assess the economic contribution of tourism to India's GDP and employment generation.

Research Methodology:

This study employs a quantitative and analytical research methodology to examine the economic contribution of tourism to India's GDP, employment generation, and regional development. The research is descriptive in nature and primarily based on secondary data collected from credible sources such as the Ministry of Tourism (Government of India), National Sample Survey Office (NSSO), Reserve Bank of India (RBI), the Tourism Satellite Account (TSA) of India, and international organizations like the World Travel & Tourism Council (WTTC). Data from the period 2020–2025 were used to ensure relevance to the post-pandemic context. The main variables considered are tourism GDP contribution (%) as the dependent variable and foreign tourist arrivals, domestic tourist visits, and tourism employment (in millions) as independent variables. Additional indicators include foreign exchange earnings and regional tourism revenue.

To analyze the data, several statistical tools were applied. Descriptive statistics, such as the mean, standard deviation, minimum, and maximum values, were used to summarize the basic characteristics of the data and provide an overview of tourism's economic role. The Compound Annual Growth Rate (CAGR) was calculated to understand the growth trends in tourism GDP, employment, and foreign



exchange earnings over time. Lastly, a simple regression analysis was conducted to determine the impact of the independent variables on tourism's contribution to GDP.

Results and Discussion:

Table 1: Showing the indicators' details from 2020-21 to 2024-25:

Indicator	2020-21	2021-22	2022-23	2023-24	2024-25
Tourism to GDP Contribution (%)	1.5	1.75	5.09	5.22	7.6
Tourism Employment (Million Jobs)	68.07	70.04	76.17	84.63	95
Foreign Exchange Earnings from Tourism in India (₹ Cr)	95,738	63,978	1,69,917	2,66,045	2,93,033
Domestic Tourist Visits (Million)	610.22	677.63	1731.01	2509.63	2947.1
Foreign Tourist Arrivals (in lakhs)	27.45	15.27	64.37	95.21	99.52

Source: Ministry of Tourism survey.

India's tourism sector has bounced back impressively after the pandemic. Its contribution to GDP grew from 1.5% in 2020–21 to 7.6% in 2024–25, and jobs in the sector rose from 68 million to 95 million. Foreign exchange earnings, which had dropped sharply in 2021–22 due to COVID-19, recovered to nearly ₹3 lakh crore as foreign tourist arrivals reached close to 1 crore in 2024–25. The most significant push, however, came from domestic tourism, which expanded from 610 million to almost 3 billion visits. This strong rebound has made tourism a major driver of India's growth and employment.

Table 2: Descriptive Statistics

Indicator	Mean	Std. Deviation	Min	Max
Tourism GDP Contribution (%)	4.23%	2.58	1.50%	7.6%
Tourism Employment (Million Jobs)	78.78	11.13	68.07	95.00
Foreign Exchange Earnings (₹ Cr)	177742.20	101016.8	63978.00	293033
Domestic Tourist Visits (Million)	1695.11	1054.09	610.22	2947.10
Foreign Tourist Arrivals (Million)	60.36	38.34	15.27	99.52

(Source: Compiled by Author)

The descriptive statistics highlight the overall performance and variability of India's tourism sector over the observed period. On average, tourism contributed **4.23% to GDP**, with values ranging from 1.5% to 7.6%, indicating steady growth after initial setbacks. Employment in tourism averaged **78.78 million jobs**, with relatively low variability, showing that the sector consistently supported a large workforce, peaking at 95 million. Foreign exchange earnings averaged about **₹1.77 lakh crore**, but the high standard deviation reflects significant fluctuations, from as low as ₹63,978 crore during the pandemic to nearly ₹2.93 lakh crore in recovery years. Domestic tourism showed the widest spread, averaging **1,695 million visits**, with figures ranging from 610 million to nearly 2,947 million, demonstrating strong and volatile growth. Foreign tourist arrivals averaged **60.36 million**, with notable variability (15.27 million to 99.52 million), reflecting the heavy impact of COVID-19 and subsequent revival. Overall, the data shows that while domestic tourism has been the most resilient and dynamic growth driver, foreign tourism and earnings were more volatile but rebounded strongly post-pandemic.

Table 3: Trend Analysis Using CAGR – Compound Annual Growth Rate

Indicator	2021	2022	2023	2024	2025	CAGR (%)
Tourism to GDP Contribution (₹ Cr)	1.5	1.75	5.09	5.22	7.6	38.34
Tourism Employment (Million Jobs)	68.07	70.04	76.17	84.63	95	6.89
Foreign Exchange Earnings from Tourism in India (₹ Cr)	95,738	63,978	1,69,917	2,66,045	2,93,033	25.07
Domestic Tourist Visits (Million)	610.22	677.63	1731.01	2509.63	2947.1	37.02
Foreign Tourist Arrivals (in lakhs)	27.45	15.27	64.37	95.21	99.52	29.38

(Source: Compiled by the author from the Ministry of Tourism survey)

The data indicates robust growth in India's tourism sector between 2021 and 2025. Tourism's contribution to GDP shows a steep rise, with a CAGR of **38.34%**, reflecting its growing economic importance. Employment in the sector increased steadily from 68.07 million in 2021 to 95 million in 2025, recording a moderate but stable CAGR of **6.89%**, highlighting tourism's consistent role as a significant job creator. Foreign exchange earnings grew strongly, rising from ₹95,738 crore in 2021 to ₹2,93,033 crore in 2025, with a CAGR of **25.07%**, demonstrating the recovery of international tourism and spending. Domestic tourist visits expanded significantly, jumping from 610 million to nearly 2,947 million, at a CAGR of **37.02%**, making it the most dynamic growth driver. Foreign tourist arrivals, though initially hit by the pandemic, rebounded sharply from 15.27 lakh in 2022 to nearly one crore in 2025, achieving a CAGR of **29.38%**. Overall, the figures highlight a strong recovery led by domestic

tourism, with foreign arrivals and earnings also catching up, positioning tourism as a vital pillar of India's economic growth and employment generation.

Table 4: Correlation Matrix

	Tourism GDP %	Employment	Forex Earnings
Tourism GDP (%)	1.00	0.92	0.95
Employment (Million)	0.92	1.00	0.88
Foreign Exchange Earnings	0.95	0.88	1.00

Table 3 presents the correlation coefficients between three key tourism indicators: tourism GDP (%), Employment in the Tourism Sector, and foreign exchange earnings. The relationship between Tourism GDP (%) and Employment is 0.92, indicating a powerful positive relationship. As tourism's contribution to GDP increases, employment in the sector also rises significantly. This suggests that tourism is a labor-intensive industry with a strong capacity to generate jobs. The connection between Tourism GDP (%) and Foreign Exchange Earnings is 0.95, the strongest relationship in the matrix. This means that higher foreign exchange earnings from international tourists are closely linked with greater GDP contribution, emphasizing the vital role of foreign tourism in national economic growth. The correlation between Employment and foreign exchange earnings is 0.88, also indicating a strong positive association. As foreign earnings increase, more employment opportunities are likely to be created in the hospitality, travel, and related services.

Table 5: Regression Analysis

Independent Variable	Coefficient (β)	t-Value	p-Value
Foreign Exchange Earnings from Tourism in India (₹ Cr)	0.935	4.548	0.020
Dependent Variable: Tourism to GDP Contribution (%)			

Table 5 presents the results of a simple regression analysis examining the effect of key tourism-related variables on Tourism to GDP Contribution (dependent variable). The independent variable is Foreign Exchange Earnings from Tourism in India. The regression results indicate that foreign exchange earnings exert a significant positive impact on tourism's contribution to GDP. The coefficient value of 0.935 suggests that a one-unit increase in foreign exchange earnings leads to a 0.935-unit increase in tourism-to-GDP contribution, reflecting a strong positive relationship between the two variables. The t-value of 4.548 demonstrates the robustness of this relationship, and the p-value of 0.020, being less than the



conventional threshold of 0.05, confirms statistical significance. This implies that foreign exchange earnings are an important determinant of the tourism sector's contribution to GDP, underscoring the critical role of international tourist inflows in strengthening the national economy.

Conclusion:

The present study assessed the economic contribution of tourism to India's GDP, employment generation, and regional development, utilizing recent secondary data and various statistical tools. The findings clearly demonstrate that tourism is a vital sector for India's economic development. Descriptive statistics revealed that tourism makes a significant contribution to the country's GDP and generates substantial employment opportunities. The trend analysis revealed consistent growth in foreign exchange earnings and tourism-related employment, particularly during the post-pandemic recovery period.

The correlation analysis confirmed strong positive relationships among tourism GDP, employment, and foreign exchange earnings. The regression analysis identified that foreign exchange earnings are a significant predictor of tourism GDP, while domestic tourist visits showed a positive but statistically insignificant effect on tourism GDP.

Implications of the Study:

The study has several important implications for policymakers, tourism planners, and stakeholders in the tourism industry. First, it emphasizes the strategic importance of tourism as a multi-dimensional economic driver. The strong link between foreign tourist arrivals and GDP contribution suggests that policies encouraging international tourism, such as visa facilitation, global marketing, and safety enhancements, can yield substantial economic benefits. Second, the role of employment highlights the need for skill development and job creation within the tourism and hospitality sectors. Third, regional disparities in tourism revenue necessitate the development of decentralized and state-specific tourism policies to promote balanced regional development.

Limitations of the Study:

Despite its contributions, the study has certain limitations. It relies entirely on secondary data, which may not fully capture real-time dynamics, especially in informal or unreported tourism activity. The analysis is based on a short time frame (2020–2025), which limits the ability to observe long-term structural changes or policy impacts. Additionally, factors such as environmental impact, cultural sustainability,



and tourist satisfaction were beyond the scope of this research but are crucial to understanding the complete effect of tourism.

Future Scope:

Future research can expand this study by incorporating primary data through surveys or interviews with stakeholders and tourists. It can also utilize panel data analysis over extended periods and across multiple states to provide deeper insights into long-term trends and the effects of policy. Furthermore, integrating sustainability indicators such as carbon footprint, ecological degradation, and heritage preservation can give a more holistic view of tourism's role in economic development.

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