



**Institutional Quality and International Tourism Demand in
India with Special Reference to Jammu and Kashmir**

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2021



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DECLARATION

I do hereby declare that this research thesis entitled “**Institutional Quality and International Tourism Demand in India with Special Reference to Jammu and Kashmir**” is an original research carried out by me. No part of this thesis was published, or submitted to any other university/institution for the award of any Degree/Diploma.

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Place: Hyderabad

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CERTIFICATE

This is to certify that the thesis entitled **Institutional Quality and International Tourism Demand in India with Special Reference to Jammu and Kashmir**, submitted for the award of the Degree of Doctor of Philosophy in Economics to the Department of Economics, School of Social Sciences, Maulana Azad National Urdu University, Hyderabad, is the result of the original research work carried out by **Miss REFFAT MUSHTAQ** under my supervision and to the best of my knowledge and belief, the work embodied in this thesis does not form part of any thesis/dissertation already submitted to any University/Institution for the award of any Degree/Diploma.

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List of Abbreviations

ADF: Augmented Dicky Fuller

AIC: Akaike Information Criteria

ARDL: Auto Regressive Distributed Lag Models

CAA: Citizenship Amendment Act

CC: Control of Corruption

CPI: Consumer Price Index

GDP: Gross Domestic Product

ECM: Error Correction Model

ECCU: Eastern Caribbean Currency Union

FEE: Foreign Exchange Earnings

FTA: Foreign Tourist Arrivals

FMOLS: Fully Modified Ordinary Least Square

GE: Government Effectiveness

GMM: Generalise Method of Moments

GOI: Government of India

HDI: Human Development Index

IPI: Industrial Productivity Index

IPS: Im, Pesaranan and Shin

IQ: Institutional Quality

IUOTO: International Union of Official Travel and Organisation

J&K: Jammu and Kashmir

MOT: Ministry of Tourism

NSDP: Net State Domestic Product

OLS: Ordinary Least Square

PCGDP: Per Capita Gross Domestic Product

PCNSDP: Per Capita Net State Domestic Product

PI: Political Instability

RL: Rule of Law

RP: Relative Price

RPEX: Relative Price Standardised by Exchange Rate

RQ: Regulatory Quality

TA: Tourist Arrivals

UEEM: Unrestricted Error Correction Model

UK: United Kingdom

UNO: United Nations Organisation

UNSD: United Nations Statistical Division

UNWTO: United Nations World Tourism Organisation

UOTO: Union of Official Travel and Organisation

USA: United States of America

USD: United States Dollar

VA: Voice and Accountability

WDI: World Development Indicators

WGI: Worldwide Governance Indicators

WTTC: World Travel and Tourism Council

Chapter 1

Introduction

1.1: Overview

Tourism industry has significant importance in the socio-economic and political development of countries across the world. In developing economies like India, it has assumed added importance by augmenting the process of growth and development. International tourism demand is one of the fundamental aspects of tourism industry and identifying its key determinants assists policy makers to reap optimally the potential benefits of tourism sector in India. One of the key determinants of international tourism demand is assumed to be the institutional quality of a country. The linkage amid institutional quality of a destination country and its international tourism demand needs to be empirically verified and validated. Therefore, this study attempts to investigate the role of institutional quality on the international tourism demand of India with special reference to Jammu and Kashmir.

This introductory chapter provides a synoptic overview of the study and is classified into various sections. The present section 1.1 provides an overview of the chapter and section 1.2 provides a brief introduction of tourism in India. Section 1.3 discusses concept of tourism demand. Section 1.4 discusses institutional quality as a determinant of tourism demand. Section 1.5 and 1.6 highlight the research questions and gaps and is followed by the objectives of the study. Brief outline of methodology and data sources are discussed

in section 1.7. Finally section 1.8 presents the chapterisation of thesis and provides brief overview of the chapters of the study.

1.2: Introduction

International trade plays an important role in the economic growth of today's globalized world. In addition to the flow of goods and services across different countries of the world, the travel and tourism industry has become an important social and economic activity. This is mainly on account of its potential in the generation of job opportunities, creating various means of earning income and drives exports across the world (Blake and Sinclair, 2007; Mbaiwa, 2003; Archer and Fletcher, 1996). The concept of tourism arises with the temporary movement of people from the place of dwelling to different destinations for the sake of leisure, business, adventure, health, religion etc. and results in various activities and opportunities that are linked to this industry. Tourism as an experience involves the movement of people both within and across the international borders of nations. Tourism industry is one among the fastest growing service industries and therefore has attained the attention of policy makers at international, national and regional levels.

International tourism is a foremost component of world trade thereby playing an imperative role in the social, cultural and economic advancement of countries. It plays an important role in cultural preservation, endorsement of peace, employment generation, economic growth and development throughout the world. People travel across the countries to understand and experience the diverse cultures, customs and traditions. The

notion of acculturation acts as a major motivating force for tourists to visit different regions (Ryan, 1997). Williams (1998) pointed out that one of the most important socio-cultural impacts of tourism is that observing the tourists brings behavioural changes among the people of the host country. This is on account of the demonstration effect that motivates the local people of the host country to adopt the behavioural patterns of their visitors and thereby helps in bringing positive behavioural changes. Tourism being a multi-dimensional, on the one hand it enhances social, economic and political development of various tourist destinations and on the other hand it acts as a source of knowledge by providing consciousness about the various cultures, traditions, rituals, beliefs and many aspects of human civilization.

An ever-increasing number of tourist destinations throughout the world have amplified the level of investment in this industry and therefore turning it into a key driver of socio-economic development (Tapper, 2001 and Mbaiwa, 2003). From the last few decades, the tourism industry has experienced an extension and diversification in order to become one among the leading and fastest growing industries of the world. Tourism industry has virtually boasted an uninterrupted growth over time despite some occasional shocks, demonstrating the sectors strength and resilience (United Nations World Tourism Organization (UNWTO) report, 2016). The contribution of tourism sector to the world's gross domestic product (GDP) in the year 2018 was around 10.4%. In the same year, the sector created 319 million jobs with a percentage share of 10% of total employment and accounted for 6.5% of total global exports (World Travel and Tourism Council (WTTC) report, 2019).

Given the enormous tourism potential of India, the travel and tourism industry is one among the prime industries and continues to grow. Travel and tourism has both direct and indirect impacts on the economic development of India. The WTTC report (2018) has put India at the 7th rank out of 184 countries in terms of the impact of travel and tourism on GDP, and at 2nd rank in terms of its contribution to employment generation. Moreover the report highlighted that tourism industry contributed about: 9.4 % to GDP of India both directly as well as indirectly, 8% to the employment generation, 5.8% of the total exports and 6.3% of the total investment in the year 2017. Tourism stimulates growth, creates employment, and earns foreign exchange and revenue for the government and many more. The tourism industry is one among the principal service sector industries of India and employs both skilled as well as unskilled labor force which is of vital importance, given the level of technical knowhow among labor force in India. In addition to providing jobs to millions of people, it is also a source of earning for travel agencies, hotel owners, tourist guides, airline companies and other stakeholders.

Promotion of sustainable tourism and augmenting the tourism sector development is the key concern of all the nations across the world including India. The Ministry of Tourism (MOT), Government of India, over the years has taken different initiatives so as to identify, diversify, develop and promote the tourism industry in India. Several steps have been taken in order to control the seasonality attribute of tourism, endorse India as a 365 tourist destination, ensure repeated visits, enhance ecotourism, adventure tourism etc. From time to time Government of India has framed different policies so as to attract huge international tourist inflows towards India. These include the Indian Tourism Policy

1982, National Action Plan for Tourism 1992, and National Tourism Policy of 2002. Moreover other numerous steps were taken for the purpose of tourism promotion and marketing that includes incredible India campaign 2002, Atithi Devo Bhavah of 2008, Visit India 2009 etc. Tourism industry received considerable attention even in the five year plans of the central government. Moreover, different plans, policies and initiatives have been taken by the Government of India (GOI) from time to time to promote tourism industry.

India is one among most famous and heart captivating tourist destinations in Asia with diversified religions, traditions, cultures, dresses, festivals, fares that fascinate the visitors around the world. India is surrounded by Himalayan Mountain Ranges from the northern side, and is bounded by the beautiful waters of Bay of Bengal, Pacific and the Arabian Sea on the other three sides. The diversified geographical locations, ancient monuments, ports, palaces, sanctuaries, national parks, places of religious importance captivate the hearts of tourists throughout the world. In addition to that, India is blessed with a long history of rich civilizations and cultures. India is also very rich in biodiversity. The country occupies only 2.4% of the total land area of the world and holds about 7.8 % of all the documented species of plants and animals throughout the world (International Union for Conservation of Nature report, 2018).

J&K is also one among the chief tourist destinations of the country with immense tourism potential. Tourism over the years has been the main source of job creation and economic development in J&K. J&K being hilly in terrain with arctic and temperate climate

conditions has put a constraint on agricultural and industrial development; however, the chances of tourism led growth seem to be enormous. Despite having high tourism endowment base, unfortunately J&K is marred by the political instability and resulting armed conflict. The emergence of militancy and violent conflicts after 1980's has been detrimental for the social, cultural, political and economic development of J&K. The existing political conflict in the valley has replaced the beautiful global image of Kashmir into frightening one (Akhtar, 2010). This ongoing conflict and instability has affected the overall development of J&K with tourism sector being the biggest victim. However, backwardness in tourism sector in J&K can be attributed to many other factors like: lack of proper policy management, high level of corruption and inadequate infrastructural development (Habib and Fatima, 2017).

Identification of the factors and their relevance that influence demand for tourism has been well documented by researchers across the world but has received less attention in Indian context in general and J&K in particular. In spite of having rich diversity, key tourist attractions with enormous tourism potential, unfortunately India has not received large number of international tourists. The reasons could be many; however, institutional quality of the host country could be a one of the potential factors influencing the international tourist's decision to visit that country (see section 1.4 for details).

Before highlighting how the role of institutional quality in the international tourism demand of India and J&K has been examined, it is of the essence to explain the notion of tourism demand.

1.3: Concept of Tourism Demand

Tourism demand being the key aspect of all the decisions and planning activities related to tourism industry, economists have studied the term extensively ever since the initiation of tourism studies as an academic field. Song *et al.* (2008) mentions that, “The term tourism demand may be defined for a particular destination as the quantity of tourism product (i.e. combination of tourism goods and services) that consumers are willing to purchase during a specified period under a given set of conditions. The period may be a month, quarter or a year”. The purchase of the tourism product of a country involves both the utilization of the goods and services like (transport, accommodation, tourist places, parks, food, local products etc.) as well as the presence of the visitors at the destination country (Brown, 1993). Therefore, tourism demand of the destination country constitutes any visitor arrivals in a country or a local area that start endowing the benefits to the destination country as soon as they arrive there (Brown, 1993). The tourism demand of the destination country is very important in the sense that all the tourism related business activities are decided ultimately on the basis of the tourism demand (Song *et al.*, 2008). The authors pointed out that the decisions of various businesses like airline companies, hotels, tour and travel agencies, handicraft shop owners are to a great extent influenced by the demand of the tourists. Tourism demand being an important player in determining the business profitability of the tourism industry, therefore for all planning and decision purposes it becomes very crucial to estimate the expected future demand. The importance of forecasting the tourism demand in order to assist the business decisions has been well recognized by the tourism researchers at all times. The need to

forecast the tourism demand accurately is important because of its perishable nature (Archer, 1987). Taking into consideration the perishable nature of tourism sector, it is essential for the efficient planning of various businesses to estimate the tourism demand accurately in order to avoid the potential losses related to tourism sector. Moreover the tourism related businesses which contribute in the socio-economic benefit of the nation need to reduce the risks related to the decisions of business activities (Frechtling, 2012).

Tourism demand is by and large measured by the number of tourist arrivals to the destination place from the country of origin (Song *et al.*, 2008). Tourism demand is also examined by the tourist expenditures made by tourists or, by the tourism revenue generated in the destination country. Some authors (Akal, 2004; Chu, 2011) used alternate measure based on the duration of the stay to forecast the tourism demand like ‘number of the tourist nights spend’ in the destination country. The selection of the measure of tourism demand usually depends upon the availability of the data. The data on tourist demand measures are gathered in different ways. “The data on tourist arrivals are generally obtained by frontier counts (inbound), registration at accommodating places (inbound) or sample surveys (inbound and outbound)” (Song *et al.*, 2008). Similarly the authors highlighted that the data regarding the tourist expenditure are collected by the bank reporting method or sample surveys. However taking into consideration the problems associated with these methods (unregistered accommodation, accommodation at friends and relatives and small sample), in the present scenario the numbers of tourist days or nights spend at the tourist destinations is considered as a better proxy for tourism demand than mere number of tourist arrivals. In tourism literature, the frequently used

measures of tourism demand employed are the tourist receipts/expenditures and the tourist arrivals with only few exceptions (Gokovali *et al.*, 2007; Akal, 2004; Chu, 2011). So far as the case of independent variables is concerned, the literature has suggested a wide range of variables for estimating the international tourism demand. The variables most frequently used in the literature are income, price level, substitute prices, exchange rate, transportation cost and political factors.

1.4: Institutional quality as a Determinant of Tourism Demand

Institutional Economics has gained much importance particularly in the end of 20th century (Vromen, 1995). The notion of institutional economics focuses on understanding the function of institutions in determining the economic behavior. Consequently the institutional economists have strengthened the position of institutions in the field of economics. Recently the academic literature suggests that due to the variation in the quality of institutions, some countries in the group of developing economies have experienced strong economic growth as compared to other countries (Rodrik *et al.*, 2004). The definition of institutions has changed from time to time. Some of the definitions of the term institution are as follows:

Chong and Calderon (2000) held that “institutions are the implicit and the explicit rules by which the members of society interact, shape the behavior of different agents and help explain the economic performance of countries”.

According to North (1989), “Institutions are rules, enforcement characteristics of rules, and norms of behavior that structure repeated human interaction”.

Institutional quality in simple words refers to the quality of the set of institutions that govern laws, constitution, government, property rights, traditions etc. that are required for the interpersonal relationship among the people in a country. The institutions of the country act as vehicles for efficient and effective delivery of public services (Kumar, 2005). However, unfortunately, institutional quality in India has been continuously falling that has resulted in the wastage of public funds in the country. The eroded institutional capacity of the country has resulted in ineffectiveness, lack of motivation and lack of accountability in the delivery system of public services. Mundel *et al.* (2012) and Nirola and Sahu (2019) while analyzing the impact of institutional quality (Judiciary, delivery of public services, law and order) on the economic performance of Indian states found that the states with strong institutional quality have performed better in terms of economic growth than the states which perform lower. The deterioration of institutions in the form of ongoing violent acts, corruption, communalism, political issues, weak implementation of laws, violation of law and order etc. pose a threat for the development of the country. The poor institutional quality not only affects governance but has economic costs associated with it and hence reduces economic welfare.

Like any other business activity, the tourism industry is assumed to be sensitive to the institutional quality factors. The academic literature throughout the globe has analyzed the determinants of tourism demand. Most of the researchers have analyzed the income, tourism prices, exchange rate, travelling costs as main determinants of tourism demand. However, recently a group of researchers went a step forward by analysing the role of institutional quality as a determinant of international tourism demand. Kim *et al.* (2018)

and Roxas and Chadee (2013) while analysing the impact of institutional quality on tourism demand, found that the institutional quality factors exert a strong and positive impact on the tourist inflows of the countries. Even though tourism sector is an important component of international trade, but tourism industry is more sensitive to risk in the destination country in the cases of both developed and developing countries (Eilat and Einav, 2004). Likewise the rule of law, government effectiveness also influences the tourism demand of the country. The existence of established rule of law and efficient regulatory quality creates a sense of security and confidence in the minds of tourists and therefore attracts them for travelling to these countries. Moreover, the entrepreneur efforts of the tourism sector can be well-supported if there is a quality regulatory system and therefore reducing the costs (financial and non-financial) to accomplish the legal requirements for their business operations (Roxas and Chadee, 2013). Tourist destinations with stable law and order regimes reduce the transaction costs and uncertainties, establishes an effective mechanism to resolve disputes (arising with respect to the consumer experience, property rights, and ownership of suppliers of services) and therefore helps to bring out the tourist flow to the destination country (Kim *et al.*, 2018).

Similarly political instability can adversely impact the tourist inflows of the country. Hall and Sullivan (1996) in their study mentioned that “issues of political stability and political relations within and between the states are extremely important in determining the image of tourist destinations in tourist generating regions”. Therefore when a country experiences any kind of political disturbance, the prospective tourists may be warned to avoid visiting that destination, and this could significantly affect the tourism industry.

The issue of political instability and political turmoil between and within the states plays an important role in shaping the image of a country as a tourist destination among the tourist originating countries of the world. Further, the impact of political problems of the destination country affects more severely as compared to a one time attack, implying that the impact of political instability is highly destructive for the economic development of the economy (Fletcher and Morakabati, 2008). Moreover the violent events have long term negative impacts on the tourist inflows because the tourists are sensitive to the negative image of the tourist destination country long after the event has happened (Enders and Sandler, 1991). Similarly the political strife, warfare, political strikes, political turmoil also influences the tourist inflow of the country (Hall and Sullivan, 1996 and Ankomah and Crompton, 1990). The political crisis present in a country makes it difficult even for the policymakers of the country to control the situation and therefore have speedy detrimental effects on the level of business (Evans *et al.*, 2003). Political violence is usually considered as dreadful news for the country's expected tourism demand even though no damage is caused or if no killing of the tourist is reported (Neumayer, 2004). Additionally, Political irregularity arising from continuous changes of governments may raise the expenses of doing business in corrupted countries and will hamper the investment in the tourism industry (Tosun and Timothy, 2011).

Besides, political instability, the corruption level present in any country also poses a severe threat to the tourism sector development (Das and Dirienzo, 2010; Saha and Yap, 2015; Santana-Gallego *et al.*, 2016). The level of corruption affects the country's tourism proficiency in two ways (Das and Dirienzo, 2010). First, like political instability, it

affects the global image or brand of the tourist destination country. Secondly, it affects the tourism industry by impacting negatively the business and economic factors that are critical for sustainable tourism development. Therefore, countries with less corruption levels attract higher tourist inflows. Corruption increases the travel costs to the visitors and therefore the tourists in order to avoid the additional costs will divert their trip to other substitute countries of the destination country. The corruption level present in the government sector is highly dangerous and therefore a big hurdle for the development of tourism sector (Saha and Yap, 2015). The corrupt governments of the country intervene in tourism projects and have enough power to use the allocation of resources for their personal use (Duffy, 2000). Additionally, these corrupted government officials can allow illegitimate foreign investment and illegitimate practices like drugs, money laundering in the tourist residing hotels.

Likewise, the presence of terrorism and terrorist attacks also affects the tourism sector development of the country. Yap and Saha (2013) categorized terrorism in two ways: the first type of terrorism arises when the citizens of the nation are denied the freedom of expressing their political will and therefore leaving the civil society to revolt against the existing government and therefore gives rise to terrorist practices. Secondly, when the activities like, terrorist attacks are more likely to happen in a country. Usually, tourists are regarded as visiting the tourist destination countries for the purpose of leisure and therefore are highly responsive to the events of terrorism and aggression in the destination country (Neumayer, 2004). Personal safety is usually the priority; therefore, the practice of social unrest, terrorist attacks, violation of human rights and even a threat

of any attack causes tourists to change their travel behaviour (Hall and Sullivan, 1996). Similarly, tourists at a certain destination consume bundle of goods and services rather than a particular good; therefore until these features of the tourist destination are specific to a particular tourist destination, tourists will move towards these countries, otherwise, they will switch to other tourist destinations if they face any kind of violence (Lancaster, 1971).

1.5: Research Questions and Gaps

Since the tourism industry in India is one of the primary foreign exchange earning sectors with high contribution to economic growth, attracting investment and generating employment, therefore it becomes essential to spot the determinants of international tourism demand and especially the role played by Institutional quality indicators. From the research point of view, the economic literature on tourism demand in India has mainly focused on the importance of tourism in GDP growth, job creation and its inter-sectoral linkages with other sectors. Moreover the literature on the determinants of tourism demand is also enormous; however, little attempts have been made to analyse the role played by institutional quality measures on the tourist inflows particularly in the Indian context.

To the best of authors' knowledge none of the studies has comprehensively incorporated the institutional quality, and analyzed its impact on the international tourism demand of India. Therefore, there is need to answer certain research questions in Indian context. These include: What are the determinants of international tourism demand of India and

what is their relative significance? Where is the need for intervention and stimulus? Whether, the quality of services experienced by the tourists in their previous visits has any impact on their future visits. Whether, trade openness and corruption level of the destination country (India) affect the international tourist inflow of the country. Does institutional quality significantly influence the international tourism demand of the country? Whether, the factors like rule of law, voice and accountability, control of corruption, regulatory quality and government effectiveness affect tourism demand. Whether, the Human Development Indices like educational attainment, standard of living and health conditions (that as such also verify the institutional efficiency) present in the destination country influence its tourism demand. How far, the institutional quality and political instability affect the international tourism demand of J&K.

Therefore, analysing the impact of institutional quality on tourist inflows of India may bridge the gap in the existing literature. Analysing determinants of international tourism demand can help policy makers to devise the developmental plans for the tourism sector accordingly and making the tourism led growth possible and sustainable in India. Highlighting the impact of institutional quality on tourist inflows of India will help policy makers to devise the possible ways and means for making institutional development possible in the country which seems to be highly important for reaping the benefits of international tourism demand. This is extremely imperative to augment the country's position as a prime tourist destination and to encourage domestic tourism.

J&K being one of the highest tourism potential states of India has high contribution of tourism sector in its NSDP, employment and Foreign Exchange Earnings (FEE) etc.

However, J&K is also known to be one of the politically instable states of India. However to the best of the author's knowledge none of the studies at the J&K level has tried to analyse the determinants of tourism demand with special focus on institutional quality.

1.6: Objectives

From the above mentioned research questions the present study has specified three broad objectives of the study:

- To investigate the various determinants of international tourism demand in India.
- To analyze the impact of institutional quality comprehensively on the international tourism demand of India.
- To examine the influence of institutional quality and political instability on international tourist inflows of Jammu and Kashmir.

1.7: Methodology and Data Sources

To examine the determinants of international tourism demand of India, the study employs the panel single equation Generalised Method of Moments (GMM) proposed by Arellano and Bond (1991). The choice of this regression model is based on the fact that panel GMM automatically takes care of endogeneity among the economic variables. Moreover, the GMM-difference estimators work well when the number of cross-sections (N) is greater as compared to the number of time periods (T), as is in the present case. To carry out the empirical analysis, the present work has employed the panel dataset across 27 top tourist originating countries of India during the time period 1995 to 2016. The basis for

the selection of time period is purely the availability of data on the variables used. The analysis is carried out by employing the panel data collected from World Tourism Organisation (2018); World Development Indicators Database; Transparency International and Directions of Trade Statistics, International Monetary Fund. The key determinants of international tourism demand (measured as annual number of tourist arrivals) retained in the model include: income of the tourist origin country, relative prices, previous visits, trade openness and corruption level of host country.

To examine the second objective, the study used the panel Auto-Regressive Distributed Lag (ARDL) model to investigate the impact of institutional quality on the international tourism demand of India both in the long-run as well as in the short-run. The ARDL model is among the class of best models as it solves the problem of endogeneity among the economic variables (Pesaran and Shin, 1998). Additionally the ARDL technique can be applied regardless of whether the explanatory variables are $I(1)$ or $I(0)$ or a combination of both (Otero-Giraldez *et al.*, 2012; Habibi and Rahim, 2009). Before estimating the relationship among the set of economic variables, the model has been tested for the existence of unit root and cointegration relationship. Similar to 1st objective the time period used for the purpose of estimation is 1995-2016, however here the number of tourist originating countries is 30, and has been chosen on the grounds of data availability. The data employed for the purpose of estimation has been extracted from World Tourism Organisation (2018); World Development Indicators Database; Directions of Trade Statistics, International Monetary Fund and Worldwide Governance Indicators. The impact of institutional quality on the tourist inflows of the country was

comprehensively analysed. For this, the study first examines the impact of composite institutional quality index, and then proceeds by evaluating the role of each individual institutional quality component on the tourism demand of the country. The study thoroughly examined, whether the factors like: rule of law, voice and accountability, control of corruption, regulatory quality and government effectiveness affect tourism demand. Further, the study examines whether the Human Development Indices like educational attainment, standard of living and health conditions (that as such also verify the institutional efficiency) present in the destination country influence its tourism demand.

In order to analyse the influence of political turmoil and institutional quality on the foreign tourist arrivals of J&K, the Ordinary Least Square (OLS) method has been employed. Taking into consideration the issue of stationarity of data, the study employs the Fully Modified Ordinary Least Square (FMOLS) method for the robustness check of the results. The FMOLS is an extended version of the OLS, that takes account of endogeneity and serial correlation and therefore the method helps to develop an approach to regression for time series data (Phillips, 2005). The third objective of the study is based on time series data, and the time period selected for the purpose of estimation (1991 to 2017) is based on the availability and relevance of the study. The annual data on the variables employed has been obtained from various volumes of “India Tourism Statistics” published by the Ministry of Tourism, Government of India; various volumes of “Handbook of Statistics on Indian States” published by the Reserve Bank of India; various volumes of “Crime in India” published by the National Crime Report Bureau,

Ministry of Home Affairs, Government of India and Institute of Conflict Management (2019). The study analysed the impact of institutional quality and political instability on the foreign tourist arrivals of J&K. Since J&K has been a victim of political instability from decades particularly since 1990's, hence affecting the economic development of the region in general and its tourism sector in particular. Therefore the study tries to find out the impact of political instability on tourist inflows of J&K. Moreover the study examines what is the way out left for policy makers to ensure sustainable tourism growth in J&K.

1.8: Chapter outline

The present study “Institutional Quality and International Tourism Demand of India with Special Reference to Jammu and Kashmir” is a comprehensive research work on investigating the impact of institutional quality on the international tourism demand of India. The study has been documented into six chapters and brief outline of these chapters is presented below:

Chapter 1: The introductory chapter provides a synoptic overview of the research work carried out. This chapter of the thesis highlights introduction of tourism in India, followed by a section on concept of tourism demand. The chapter also includes a section on institutional quality as a determinant of tourism demand. Further the chapter presents a brief overview of the research questions and gaps followed by the objectives of the study. The chapter provides a brief outline on the methodology and data sources used in the study and finally shows the chapterisation scheme of the thesis.

Chapter 2: This chapter includes some basic theoretical concepts related to tourism demand of India and J&K. The chapter constitutes of nine different sections starting with introduction of the chapter followed by tourist meaning and purpose. The next section deals with the typology of tourists on different basis, thereby dividing this section further into various subsections. Subsequently another section deals with trends in international tourism demand of India followed by the contribution of tourism sector in Indian economy. It also discusses tourism in J&K and major types of tourism in J&K. The last section of the chapter includes the contribution of tourism sector in the economy of J&K.

Chapter 3: This chapter investigates the relative significance of various determinants of tourism demand in India. The chapter comprises of six sections, where the first section introduces the importance of tourism both at global and national levels. This section is followed by the existing review of literature, methodology and data sources, results and findings respectively. Finally the conclusion and the policy implications are discussed.

Chapter 4: In this chapter the impact of institutional quality on the international tourism demand of India has been comprehensively analyzed. The introductory section of this chapter highlights how the branding or image of a particular tourist destination can play an important role while choosing the tourist destination country. The available literature on institutional quality as an important determinant of tourism demand has been discussed next. This is followed by section on data sources and methodology. Then the section on results and findings has been reported. Finally the chapter is concluded and some policy implications have been provided.

Chapter 5: This is the last objective of the study in which the impact of institutional quality and political turmoil on the international tourism demand of J&K is examined. The chapter first introduces how in spite of being amongst the most heart captivating tourist destinations, the tourist inflow of the region has been constrained due to the prevailing political instability and armed conflict in the region. The introductory part of the chapter is followed by sections on review of literature, data and methodology, results and findings and conclusion and policy implications respectively.

Chapter 6: This chapter concludes and summarizes the findings of the whole study. The chapter includes a section on suggestions and policy implications followed by scope of future research and limitations of the study respectively.

Chapter 2

Tourism in India and Jammu and Kashmir: An Overview

2.1: Overview

Tourism is the foremost component of world trade and occupies a significant position in the social, cultural and economic development of both developed and developing countries. International tourism plays a vital part in cultural preservation, promotion of peace and security, employment generation, economic growth and development throughout the world. Therefore tourism sector has assumed added importance across the nations, and analysing tourism demand and its determinants has been a key area of interest for academicians and policy makers. Before analysing the specified research objectives, a prologue to study has been documented to throw some light on the basic concepts related to tourism and its importance in India with special reference to Jammu and Kashmir (J&K).

The remaining part of present chapter has been divided into various sections. Section 2.2 provides introduction of the chapter followed by section 2.3 documenting tourist meaning and purpose. Section 2.4 deals with the types of tourist/tourism on different basis, thereby dividing this section further into various sections. Section 2.5 deals with trends in international tourist inflow of India followed by section 2.6 that discusses the contribution of tourism sector in Indian economy. Section 2.7 and section 2.8 discusses tourism in J&K and major types of tourism in J&K respectively. Finally section 2.9 of the chapter throws light on contribution of tourism in J&K economy.

2.2: Introduction

Manila Declaration on World Tourism, 1980 recognized tourism as “an activity essential to the life of the nations because of its direct effects on the social, cultural, educational and economic sectors of national societies and on their international relations” (Verma, 2017). This implies that the impact of tourism industry is multi dimensional. It benefits the host countries by increasing the level of income accruing through spending on various goods and services consumed by the tourists. It not only perks up the economic development of the nations but also helps in the regeneration of local arts and crafts, renewal of social and cultural life, cultural background, rejuvenation of local architectural traditions and therefore promoting the requirement to preserve the areas with unique beauty (Mason, 2020). Tourism sector acts as a vehicle of outreach for a nation, strengthening international relations and understanding among different countries of the world. Before discussing about the various trends in the international tourist arrivals of India in general and J&K in particular, the present chapter throws light on some basic concepts of tourism.

2.3: Tourist: Meaning and Purpose

Tourism is being considered as an umbrella concept (Lundberg *et al.*, 1995) that involves the entire activities associated with tourists. Therefore it is the heart of tourism industry to define the notion of tourist (Tribe, 2009). However due to the multidisciplinary and complex nature of the term, there is no unanimous consensus on the definition of the term “tourist” (Smith, 1989 and Wang, 2000). This is because the meaning of the term might

vary depending on the field of the study (Mason, 2020). Different scholars from time to time have defined the term 'tourist' differently. Therefore there is need to discuss how the definition of "tourist" has evolved over time.

In 1937, the League of Nations defined the concept of tourist as "any person visiting a country other than that in which he usually resides for a period of at least 24 hours". After the emergence of United Nations Organization (UNO) in 1945, it also agreed upon the definition of the tourist as given by the League of Nations. However the International Union of Official Travel Organizations (IUOTO) in 1950 made some modifications in the definition given by League of Nations by including the students (who were staying for less than a year in a foreign country) as tourists (Ghanem, 2017).

The definition of the tourist was re-considered in the United Nations Conference on International Travel and Tourism held in Rome in 1963 where it was suggested that it should be studied by the United Nations Statistical Commission (United Nations Statistical Division (UNSD), 2010). In this conference the Union of Official Travel and Organization (UOTO) differentiated between two terms "visitor" and "tourist" based on the duration of stay. The UOTO defined the visitor as a person who spends less than 24 hours at a destination in comparison to a tourist who spends more than 24 hours. Later in 1967, this definition was reconsidered and the United Nations Statistical commission wished-for to differentiate between visitor and tourist on the basis of overnight stay (Smith, 1989). Thereafter, in 1968 the UOTO defined the concept of tourist on the notion of visitor and is as, "A visitor is defined as the person who travels a country other than

that of residence, for any reason other than paid work” (Candela and Figini, 2012). This definition just excluded the persons who visit the country for the sake of some remuneration.

Later in 1981 due to the international conference held in 1976, United Nations World Tourism Organization published a “Technical Handbook on the Collection and Presentation of Domestic and International Tourism Statistics”. In this handbook, the UNWTO defined an international visitor as “an individual entering a country that is not his place of residence” (Ghanem, 2017). This definition has excluded the people who are seeking the employment in other countries, migrants, refugees, diplomats, militants etc. (Ghanem, 2017). This implies that the purpose of the trip to other countries here may include leisure, education, sports, medical, visiting friends and relatives, religious visits etc. Later UNWTO (2014) provided the definition of a tourist as “a visitor (domestic, inbound or outbound) is classified as a tourist, if his/her trip includes an overnight stay” (Ghanem, 2017). Since then the authors in different fields of tourism literature have defined the term tourist based on this definition (Shaw and Williams, 1994 and Pearce, 2011). Moreover this is done because the definition given by UNWTO appears to be very simple.

To understand this definition properly it is important to look into the main components of the definition of tourist. The first main aspect is the term ‘visitor’ that needs to be defined properly in order to understand the definition of tourist in a proper sense (Ghanem, 2017). Additionally the second component of the definition is overnight stay or else the tourist

will be misunderstood as a same day visitor rather than a tourist. This condition of overnight stay can be also reflected in the definition given by Bowen and Clarke (2009) that held that “a visitor will be considered a tourist only upon fulfilling the minimum length of stay that is 24 hours also known as overnight stay”. Additionally, the UNWTO highlights that definition of tourist is restricted regarding the length of stay; the stay shouldn't surpass 12 successive months (UNSD, 2010). Moreover to understand the definition of the interconnected terms tourist, traveler and excursionist properly, the UNWTO (2014) has defined the three terms as follows:

“A visitor is defined as “a traveler taking a trip to a main destination outside his/her usual environment, for less than a year, for any main purpose (business, leisure or other personal purpose) other than to be employed by a resident entity in the country or place visited. A visitor (domestic, inbound or outbound) is classified as a tourist (or overnight visitor), if his/her trip includes an overnight stay, or as a same-day visitor (or excursionist) otherwise” (UNSD, 2010). Therefore an important implication of the definition of tourist given by UNWTO is that a visitor will be considered a tourist only on the condition of fulfilling the minimum duration of stay that is 24 hours or we can say an overnight stay (Bowen and Clarke, 2009). The UNWTO has strictly restricted the duration of the stay for the tourists and therefore the duration of stay cannot go beyond twelve consecutive months (UNSD, 2010).

After analysing the definition of a tourist, it is important to consider the purpose of tourists for visiting a particular destination. According to UNWTO, “the purpose of the

trip of the tourist should fall into one of the two main purposes which are: taking a trip for personal purpose or business” (UNSD, 2010). Taking into consideration the personal purpose of tourist, it includes a broad range of sub categories like (a) Visiting for the sake of recreation and includes activities like sightseeing, rock climbing, skiing, trekking, sport fishing, golfing, cultural holiday trip etc.; (b) Visiting for educational and training purposes like students and researchers. However they are considered as tourists only as long as their stay does not exceed more than a year; (c) Visiting relatives and friends at different times; (d) It also includes the purposes like religious, medical, shopping (Ghanem, 2017).

The second purpose for travel that is business purpose can be defined as a trip done for the purpose of any business or professional work on the condition that the traveler does not get any kind of remuneration from the destination country. The defined purpose also includes diplomats and military personnel who are participants in different non-governmental missions (Ghanem, 2017). However the author also highlighted that this purpose excludes travelers that are in employment for duration of less than a year, also any kind of payment made from the tour eliminates the traveler from the category of tourists. Some studies attached greater importance to the notion ‘absence of remuneration’ while defining the concept of tourist (Cooper *et al.*, 2008 and Lickorish and Jenkins, 1999). However contradictorily, Diaz-Soria (2017) pointed out that remuneration may be considered as motive for the trip but not its lone purpose. The author also revealed that there are some people who have the option to perform their work and recreational activities together. Therefore the concept of hybrid tourist emerged

where the two purposes of tourists' i.e. leisure and business are merged to become tourist, to visit places that are not affordable otherwise.

Some studies Bowen and Clarke (2009), Pearce (2011) and Pearce (2012) based their research work on purpose of the trip defined by UNWTO and considered it as an imperative aspect in differentiating between a tourist and non tourist. However Yu *et al.* (2012) analyzed the definition of tourist from the perception of tourists and found that tourists do not think themselves as tourists if they are visiting a destination place repeatedly. Moreover, the authors also found that they do not perceive themselves as tourists if they are visiting their friends and relatives or travel for business purposes. So from above discussion it can be concluded that both the definition and the purpose of the trip have evolved over time taking into consideration the changing behavior of the tourists.

2.4: Types of Tourism/Tourists

People across the world have different reasons to travel. Purpose of travel has offered a clear distinction of varied types of tourism. Typology of tourism can be done on the basis of different criteria adopted and are discussed as follows:

2.4.1: Classification of tourism on the basis of region

2.4.1.1: Domestic Tourism: In this type of tourism a visitor travels within the country in which he/she is living. Here the person remains away from the place where he resides for a period of less than twelve months. The tourists visit the tourist spots within the boundaries of their own country and don't cross the national borders of their countries.

For example in Indian domestic tourism, tourists can visit any place of India, can go to any state or union territory, islands, beaches, coastal areas, forests but within the boundaries of India.

2.4.1.2: International Tourism: In international tourism, a person travels to other countries rather than the country in which he/she is residing, for a period of less than 12 consecutive months. In this type of tourism, different type of documents like passport, visa and other documents are very essential for the tourists to travel to other countries. Here the tourists can visit one or more than one countries in a single trip. Therefore in international tourism the tourists cross the boundaries of different countries and therefore can experience diverse traditions, cultures, languages and ways of living of different countries of the world. Foreign tourism is very beneficial for the development of tourist destination countries. This is because the foreign tourist visits act as source of Foreign Exchange Earnings for the destination countries. Moreover, the foreign tourists make spending in the destination country on various goods and services like food, transportation, accommodation in hotels, handicrafts, clothing etc. Therefore they generate income and employment opportunities for the destination countries. Sometimes the differences in language becomes an obstacle for traveling to different countries, so here arises the need for hiring tourist guides who are well equipped with different languages, thereby a source of employment generation.

2.4.2: Classification of tourism on the basis of purpose

Taking into consideration the extensive nature of purpose of tourists, tourism can be classified under the following sub categories:

2.4.2.1: Leisure Tourism: In this type of tourism people travel for the sake of pleasure and excitement in order to get relaxed from the daily busy routine of life. It includes the activities like staying in hotels, relaxing on beaches, sports, photography, going on tours etc. Generally this kind of tourism is enjoyed with family, friends, relatives and colleagues. Presently the leisure tourism predominate interms of the contribution in tourism. The predominance of leisure tourism can be highlighted from the fact that in the year 2017, the leisure travel spending contributed about 77.5% (USD 4,233.3bn) to the direct travel and tourism contribution to Gross Domestic Product (WTTC report, 2018). The report also highlighted that for India, leisure tourism contributed about 94.6% out of the total travel and tourism. This signifies that people throughout the world travel mostly for the purpose of recreation and fun. This is because people particularly those with good economic conditions are stressful due to their daily busy schedule, therefore they want to get some break in order to feel some sought of relaxation at the places of tourist attraction.

2.4.2.2: Cultural Tourism: In this type of tourism, the tourists travel in order to experience the quintessence of diverse cultures of the world. Culture from ancient times has remained as one of the important incentives for people to travel. Cultural tourism involves visiting the places of historical importance, art galleries, museums, traditions,

battlefields, railways, festival celebrations that depict the images of diversity and the ways of life of different nations. The national pride and richness of a country depends on the cultural essentials like forts, art galleries, music, museum etc. The main motive behind the cultural tourism is to gain knowledge about the people of any nation, their way of living, art, history, traditions, festivals, rituals etc. in order to gain an overall admiration of the past. There are many people in the world who are very much eager to visit and become acquainted with the ancient civilizations for the sake of their knowledge.

India is known for its rich cultural heritage with people of diverse beliefs, traditions, religions, languages etc. Tourists throughout the world come to India in order to experience the various fairs and festivals, rituals, customs and traditions. There are thousands of historical and archaeological monuments spread throughout the country that provides the opportunities for the tourists to learn and know about the ancient culture of the country. There are dissimilarities in the dance, music, food, customs, architecture that makes the culture of India very comprehensive and vibrant.

2.4.2.3: Religious Tourism: In religious tourism people travel to the sites of religious importance. Religious tourism involves journey of a person to a sacred place that is of immense significance for his/her belief and faith. In this category of tourism, the holy place acts as a center for the pilgrims of many religious beliefs. The devotees of different religions like Islam, Hinduism, Christianity, Sikhism, Judaism etc. go to their respective holy religious places in order to attain the peace of mind and salvation. Members of every

religion participate in the religious tourism and it is widespread throughout the world. In India religious tourism is also increasing very rapidly because of the divine faith of people of diverse religions living in the country. India is very much famous for its temples throughout the world. The other religious places that attract huge tourist inflow are Mata Vishnu Devi Temple (Jammu), Golden temple (Amritsar), Ajmer Sharif (Jaipur), Jamia Masjid (Delhi) etc.

2.4.2.4: Medical Tourism: The main motive behind medical tourism is to get treatment in order to improve one's health conditions or physical appearance through surgeries or other fitness programmes. These services also include some complex specialized surgeries like cardiac surgery, joint replacement etc. Sometimes the health tourists just make trips in order to stay away from home for few days in a healthier climate. There has been an increasing popularity of health tourism throughout the world. The factors which are responsible for increasing popularity of health tourism include expensive health care in some countries, improvement in medical technology, elongated waiting period for certain procedures etc. Initially people used to travel from less developed to developed countries for the purpose of treatment due to the improved medical technology of those countries. However in recent years people from developed countries have also availed the medical benefits from the developing countries with comparatively lower costs. Some medical procedures like hip replacement have waiting period of year or more in Canada and Britain. But in some developing countries like Thailand, India, Singapore, Hong Kong a patient can get the surgery even after a day of his arrival.

India occupies an important place among the top most medical tourist destinations all over the world. Patients from different countries of the world come to India in order to get the treatment in the modern advanced hospitals to cure various diseases. India is well known for medical tourism particularly in the field of Heart surgery, hip resurfacing and other areas of advanced medicine. In both public as well as private hospitals, the cost of treatment is very low in India in comparison to other developed countries of the world. Medical tourism is a growing sector therefore to attract more and more medical tourists the government of India on February 2019, has expanded its e-tourism visa regime to include the e-medical visa also. The Health Capital of the country Chennai attracts massive national as well as international health tourists. Low costs, little or no waiting periods and the special facilities offered at various hospitals of the city are the major attractions of medical tourism in India.

2.4.2.5: Business Tourism: Business tourism has occupied an important place in tourism scenario. Due to the trade openness and growing industrial and business sectors of the economy the number of business trips per year has also increased. The main motives behind this form of tourism are some business and professional activities like meetings, conferences, workshops etc. During business tourism the business personals are still working and are being paid but they are away from their workplace as well as their home. In addition to business work, the business tourists have a lot of leisure time that they use for pleasure and relaxation during the trip. Sometimes the organizers of the conferences make leisure time of business tourists worthwhile by arranging some relaxing activities in order to make them feel comfortable. At times several businessmen travel to other

countries in order to sign some business contracts or perform some business transactions. After finishing their work, the business partners take them to the popular and attractive places of that very nation.

2.4.2.6: Education Tourism: Education tourism also called edu-tourism is one of the sub-categories of tourism sector. Education tourism has been continuously growing as a new development in global tourism. In education tourism, people travel for the sake of obtaining knowledge or experience on certain aspects. In this type of tourism, people travel for the purpose of seeking knowledge about the people, cultures, geography, ecosystem, economy or the demographic conditions of different countries of the world. Here students go to foreign countries for higher studies, for pursuing research, professional degrees so as to make themselves productive. This provides students an opportunity to augment their research and observation skill and thereby broadening their level of experience. Sometimes some trips are organized for the skill enhancement programmes. As far as education tourism is concerned, this sector has a vast scope and presently it is acquiring popularity as a rapidly growing sub sector of tourism industry.

2.4.2.7: Agricultural Tourism: Agri-tourism is a type of tourism that involves agricultural based activities and brings the visitors on farm. Now-a-days people have become much interested about the practices that are involved in the production of various food items. They are interested to meet the farmers and discuss with them the various processes that are involved in the food production. Sometimes the tourists may help the farmers in various farming tasks. In countries like USA Agri-tourism is very popular and

keeps some farms open for the public in many seasons of the year. Due to the increasing interest of the people, there develops a huge rush at the farms. As a result the farmers give their efforts in order to increase the quality of their agricultural products. Tourists can enjoy there a variety of agricultural activities like fruit and vegetable picking, irrigating their fields, adding fertilizers to crops, removing weeds from their crops, reaping their harvest and much more. At times some gift shops are established in the farms in order to sell the regional produce or the handicraft goods. These types of tourism activities are conducted for those tourists who are very much interested in agriculture, farm management, dairying, fishing, animal husbandry etc.

Farm tourism is another term that is related to Agricultural tourism. In farm tourism, the farms with fruits, vegetables etc. are beautifully decorated for the purpose of entertainment. In these farms the employees grow crops, vegetables, flowers, fruits in order to sell them in the open market. In addition to these products other facilities like food, games and entertainment are also provided in the farms in order to attract tourists so that the owner as well as the employees can earn profits.

2.4.2.8: Sports Tourism: In sports tourism people travel either to participate in various sports activities or watch sports events. The interest in sports activities is the main motivation behind sports tourism. Different sports events like world cups, Olympic Games, football, kabaddi, boxing, badminton attract not only the game participants but also massive number of followers who are interested in games. People travel not only within their own country but also to other countries in order to watch the live sports

matches. In modern times the sports tourism is going up at a greater extend. The advancement in technology has made a huge impact on the sports industry. Now people can buy sports ticketing online through various sites and therefore making it easier for people to attend different sports events. The sports events organized in any country have lot of economic benefits both for the specific region as well as country as a whole. In fact many countries organize yearly sports events like football, cricket, swimming etc. to attract huge flow of tourists. Now-a-days people are totally interested in adventurous sports. Tourists from different countries of world travel to enjoy the adventure sport tourism. An adventure sport includes Para shooting, sky driving, ballooning, skiing, rafting, rock climbing and mountaineering etc.

2.4.2.9: Wildlife Tourism: Wildlife tourism in simple terms refers to traveling of people in order to observe the wild plants and animals in their natural habitat. The wildlife tourism has gained much importance throughout the world in line to access the wildlife very closely. Consecutively to gain the experiences, wildlife tourists are taken to zoos, wildlife sanctuaries, and national parks of the country. In wildlife tourism tourists can just interact, photograph or watch the animals, but can't perform any consumptive activities like fishing, hunting etc. In India, there is rich forest cover and therefore the country has huge potential to attract the foreign tourists throughout the world. India has about 45000 species of plants, 15000 flowering plants, 91000 animal species, 2456 fish species, 1230 bird species, 372 mammals (international union for conservation of Nature report, 2018). Additionally, the country has 110 national parks and 543 wildlife

sanctuaries. This has boosted the wildlife tourism in India by attracting tourists from all over the world.

2.4.2.10: Political Tourism: Political tourism refers to visits that are organized with some political purpose. This includes participation of political persons or political organizations in events of political importance. Political leaders of one nation travel to attend political events and important national days' celebrations of other countries. They travel in order to be familiar with political processes of different countries. They try to study the working of different organs of the government in diverse countries of the world like legislature, executive, judiciary etc.

2.4.2.11: Historical Tourism: In historical tourism people travel to observe old monuments, ancient buildings, museums, forts, palaces, in order to get some glimpses about past times. This form of tourism includes visits to monuments of natural and cultural importance, religious buildings of historical importance like Islamic mosques, Buddhist temples, shrines and tombs etc. Tourists are attracted towards these places because of their historical, national or religious value and this type of tourism promotes interest for the conservation of historical sites. Some tourists are very much eager to visit and acquire the information regarding ancient civilizations for the sake of getting knowledge. Indian subcontinent has very old history dating back to the time of Indus valley civilization thereby, has a rich historical tourism potential. The historical places of India include all those locations that have made the country famous by reflecting the graciousness of its past. There are different forts, palaces, churches, mosques, victory

pillars, temples that have been built at different periods of time during the reign of different rulers. Agra which is home to Taj Mahal is among the top most historical places of India. The other attractions include Agra fort, Ajanta and Ellora caves, Qutub Minar, Victoria Memorial, Fatehpur Sikri that attract tourists across the world. Most of the famous Indian cities have rich history. The various places of historical attraction in the country are Aurangabad, Delhi, Hyderabad, Agra, Jaipur, Maharashtra, Rajasthan, Mysore etc. The historical buildings of those cities tell the story of their foundation, beauty, art and architecture.

2.4.3: Classification of tourism on the basis of number of tourists

2.4.3.1: Individual Tourism: In this type of tourism a tourist visits the tourist destination individually in order to fully enjoy the trip. Here it is the tourist who decides the place and time of travelling. Although all the decisions are taken by the tourist himself therefore this type of tourism is more flexible as compared to mass tourism. Moreover the tourist has an open choice during the process of travelling regarding the places to be visited as well as the modes of transportation and ways of visiting the place.

2.4.3.2: Mass Tourism: Mass tourism involves act of travelling to a tourist destination collectively by a large group of people at one time in order to enjoy leisure time. This type of tourism has developed as a result of advancement in technology, development in transport facilities that has made the communication speedy as well as easy. The improvement in technology of the transport industry allows the transportation of huge number of people to places of interest in a short pace of time to enjoy the place

collectively. In mass tourism tourists can find out the places of their interest on internet and even they can pay for their trips online. Mass tourism has gained importance because it is one of the cheapest ways to visit places of tourist importance as it is often sold in package deals. In package deals, a single company organizes all the tourism activities and services of all the tourists to cater the needs of the tourist group. These services include the transportation facilities (flights, buses and trains), accommodation, food etc. Although mass tourism has enormous economic benefits for the destination country but it has been criticized by some researchers (Mieczkowski, 1995) on environmental grounds, due to the deteriorating effects caused by the pressure of large number of people at a time on the environmental quality of the small area. Mass tourism may result in the direct degradation, pollution and even destruction of elements like air, soil, water, wildlife and ecosystem (Mieczkowski, 1995). Moreover the construction of hotels and buildings, parks, swimming pools and concentration of tourists may result in degradation of balance of the different ecosystems.

2.4.4: Classification of tourism on the basis of season

2.4.4.1: Summer Tourism: Summer tourism is very famous throughout the world. As the intense heat of summer season increases, people prefer to visit hill stations. When people face the burning temperatures during the months of summer, they get some break from the exhausting busy schedule of their life in order to get relaxed at some pleasing places. People prefer to travel during this season so that they can enjoy the activities like sunbath, water sports, trekking, hiking, rain dance etc. India has huge tourism potential and attracts tourists throughout the year. But the main places in India to visit during the

summer season are Manali, Andaman and Nicobar, Ladakh, Rishikesh, Mahabaleshwar, Gulmarg, Darjeeling etc. These places attract large flow of tourists particularly during the summer season of the year.

2.4.4.2: Winter Tourism: In winter season tourists throughout the world travel in order to get pleasure from enjoying the collection of festivals and vacations coupled with the months of winter season. People in the months from December to March can enjoy by visiting the snow clad mountains, steamy beaches, warm deserts throughout the world. This season is very popular for the sports activities like skiing, skating etc. In some countries of the world, snow festivals are organised in order to make tourist participation from round the world possible in these festivals. Majority of visitors in these festivals come from foreign countries, to experience the happiness from various sports activities that can be performed only in the presence of snow in winter season. Particularly the tourists who do not experience snow in their countries are highly attracted towards these snow festivals. The places of attraction that tourists visit in India during winter season are Munnar in Kerala, Shimla, Kashmir, Darjeeling, Mysore etc.

2.4.4.3: Rainy Season Tourism: Rainy season tourism has also become an important aspect of this industry in India, particularly in the periods of monsoons. In addition to seeing of sights and relaxation from travelling, tourists want to enjoy the vacation with mild winds and rain drops. Tourists remain eager to experience heavy rainfall, particularly during the monsoon season. In India, the top most places that are visited

during monsoon season are Coorg in Karnataka, Shillong in Magalia, Munnar in Kerala, Uttarakhand, Udaipur in Rajasthan, Cherrapunji etc.

2.4.5: Other Types of Tourism

2.4.5.1: Adventure Tourism: In this form of tourism, tourists travel to distant areas to gain pleasure from unanticipated experiences. Adventure tourism includes a wide range of activities like boating, river rafting, blooming, sea surfing, water skiing, rock climbing, paragliding, parasailing that is done under the supervision of trained personals. Adventure tourism gives much excitement to the participants but may sometimes require huge effort and some degree of risk on the part of participants. Adventure tourism is rapidly growing in popularity throughout the world including India. The growth of adventure tourism is very recent so far as India is concerned. In India the practice of rock climbing is gaining much popularity as far as adventure tourism is concerned. The places where tourists prefer to go for rock climbing in India are Parvati valley, Miyar Valley, Sar Pass Valley (Himachal Pradesh), Shey rock (J&K), Hampi (Andra Pradesh) and Madhugiri (Karnataka)ⁱ. The white water rafting not only captivates the adventure sports personals but also other tourists. The places where tourists fulfill the passion for river rafting in India are River Ganga (Rishikesh), Teesta River at Sikkim and Darjeeling, Indus River in Ladakh, Barapole River at Coorg, Kundalika River at Kolad Maharashtra, Spiti River in Himachal Pradesh etcⁱⁱ.

Camel safari in Indian deserts is also very popular among tourists to walk around the deserts. Important places for the camel safari in India are Ladakh, Jaisalmer, Bikaner,

Manawa, Jodhpur etc. (Arunmozhi and Panneerselvam, 2013). Paragliding in India has also shown a rapid increase in recent years. The popular destinations for paragliding in India are Bir Billing (Himachal Pradesh), Manali (Himachal Pradesh), Nainital Hills (Karnataka), Kamshet (Maharashtra), Shillong (Meghalaya) etc. ⁱⁱⁱ

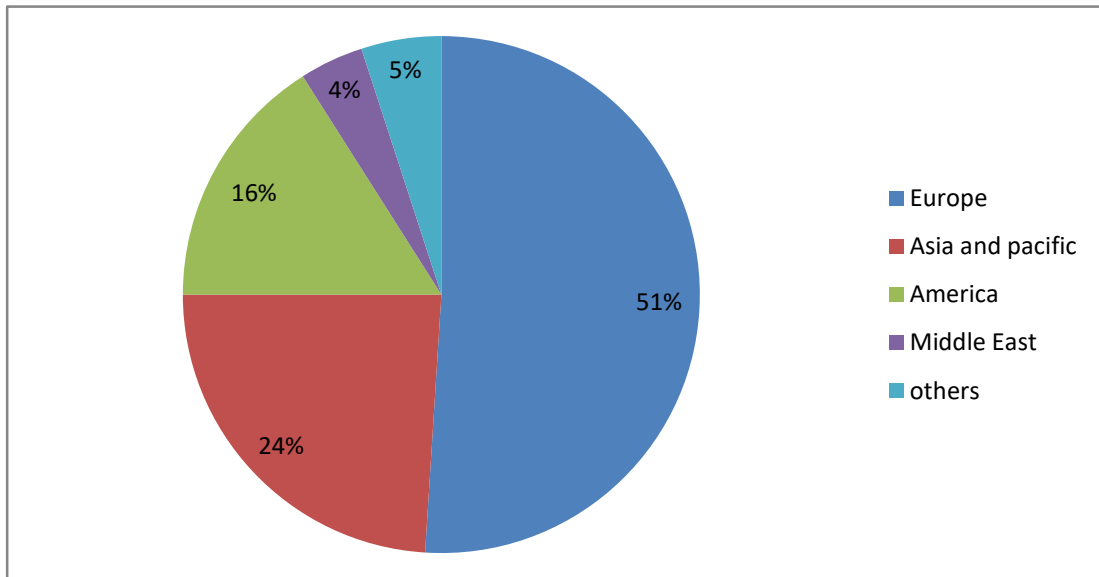
2.4.5.2: Eco-Tourism: It is a type of tourism where both economic development and protection of quality of natural environmental are taken into consideration. This type of tourism aims at traveling the natural areas without harming the environment and to raise the wellbeing of local people. This type of tourism is devoted towards having low impact on the natural surroundings and culture of the destination place and side by side generating income for local people of the area. Eco-tourism has emerged in order to promote socially responsible and environmental friendly tourism. In eco-tourism, the tourists are offered the insights into the harmful effect of human beings on environment and to develop the values of conserving our natural habitat. In eco-tourism, the tourists and other stakeholders are made aware about the danger that result from the detrimental actions of human beings and therefore promotes sustainable tourism. Here tourists are not allowed to harm the environment at any cost. But in turn are motivated to plant more and more green plants at the places of their stay. During the trip, they are not allowed to use the polythene bags. So the rules are very strict as far as eco-tourism is concerned (Kothari, 2011). Here the tourists are motivated to minimize the environmental impacts by using the least possible amount of non-renewable resources.

In eco-tourism tourists travel to distinguished places well known for their natural attractiveness and culture without causing any damage to the ecological balance. The MOT, GOI has taken several initiatives from time to time to promote eco-tourism in the country. These initiatives include measures like “Tigers our national beasts”. Both the government as well as other stake holders has shown interest about growing dangers to wildlife due to rapidly growing infrastructural development in these areas. In order to promote the practice of eco-tourism different awards were included in the “National Tourism Awards” annually presented by MOT, GOI to various segments of travel and tourism industry. These awards include best eco-friendly hotel, best responsible tourism project, best eco-friendly practices by the operators etc.

2.5: Trends in International Tourist inflows of India

The International tourist inflow of world has increased from 25 million in the year 1950 to 1186 million in the year 2015 (UNWTO, 2018). The report also highlighted that in the year 2017 there was the highest rate of growth in international tourist arrivals since the year 2010, and it increased to 1326 million with around 70 percent increase from the previous year. The report also highlighted that maximum share of international tourist arrivals was of Europe (51%) followed by Asia and pacific (24%), America (16%), Middle East (4%) and others with a percentage share of 5% respectively. Figure 2.1 represents the continent wise share of international tourist arrivals throughout the world.

Figure 2.1 Continent wise Share of International Tourist Arrivals throughout the World



Source: Authors' calculation based on The World Tourism Organisation (2018).

The tourism sector over the last few decades has witnessed an incessant and exponential growth. Therefore the tourism industry for the sixth consecutive year has outpaced the growth of the overall global economy (WTTC report, 2017). When it comes to the ranking of the world's top international destinations, both the international tourist arrivals and international tourism receipts are taken into consideration. In the year 2017 in terms of international tourist arrivals, it was France which topped the list with annual international tourist arrivals of 86.9 million (UNWTO, 2018). However, in terms of international tourism receipts, it was USA that topped the list with annual tourism receipts of 210.7 USD billion. As far as the purpose of visit is concerned, 55% of international tourist arrivals were for leisure and recreation purposes, 27% for visiting friends and relatives and for health and practicing religious ethos. This is followed by business and professional tourists with 13% share and the remaining 6 percent tourists

have not specified the purpose of the visit (UNWTO report, 2018). Among the total international tourist arrivals, 57 percent travelled by air, 37 percent by road, 4 percent by water and 2 percent by rail service.

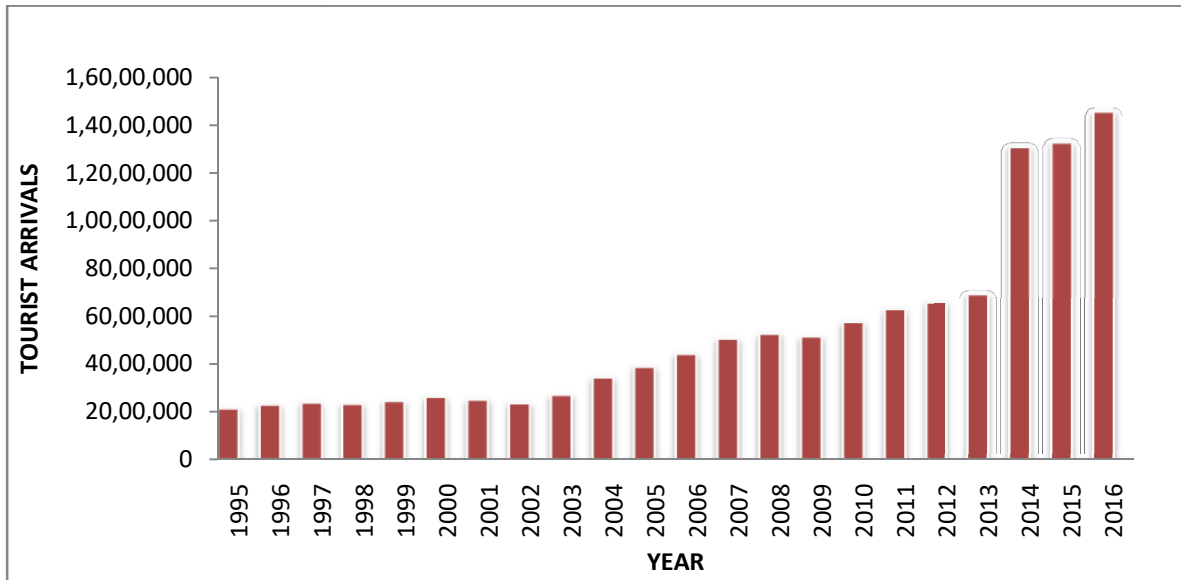
India being a diversified country with different cultures and traditions, the diversified natural beauty, Indian festivals, traditions, rituals, cultural and heritage sites are very popular and attract visitors throughout the world. The prime attractions of the country for travelers across the world are Kerala, Kashmiri Meadows, Rich Tropical Forests, Goa Beaches, Manali, Shimla etc. Also the country is rich in ancient historical and cultural architectural structures like Mysore Palace, Qutub Minar, Taj Mahal, Charminar (Hydrabad), Hawa Mahal (Jaipur), Fatehpur Sikri, Ajanta Ellora Caves (Aurangabad), Victoria Memorial (Kolkata), Mughal gardens in J&K (Nishat garden, Shalimar garden, etc.) thereby making it one among the most attractive tourist destinations of the world. There has been a bulk of both domestic as well as international tourist inflow to the country in all the seasons of the year. This impetus to tourism sector has been provided by both the government and business organizations to attract tourists throughout the world. The MOT, GOI has taken several fruitful efforts for the development of tourism sector at national, state and regional levels. Initiatives like modernization and up-gradation of airports, modernization of road infrastructure, development of telecommunication, different e-visa facilities for tourists with different purposes, comfort to traveling to important tourist and pilgrimage centers seems to prove highly successful in attracting the tourists throughout the world. In addition to this the MOT, GOI launched two major schemes in the year 2014-15 viz Swadesh Darshan - an integrated

development of theme based tourist circuits and PRASHAD- Pilgrimage Rejuvenation and Spiritual Heritage Augmented Drive for Tourism Infrastructure in the country (MOT, GOI report, 2019-20). The Swadesh Dharshan scheme was launched in order to take initiatives to tackle the needs and concerns of all stakeholders in order to enhance the employment opportunities of the country and to improve the tourist experiences. Under PRASHAD, 41 sites in 25 states have been recognized for the process of improvement. Additionally it was also pointed out in the report that for this purpose, Rupees 857.61 crores have been sanctioned for the completion of 28 projects, out of which Rupees 397.67 have been released till 31 March, 2019. Moreover different initiatives have been taken by the Ministry for the promotion and development of niche tourism products like golf tourism, polo tourism, film tourism, adventure tourism in order to promote India as a 365 days tourism destination.

Figure 2.2 below portrays the trends of total international tourist inflow of India from all the countries from the year 1995 to 2016. It can be seen from the figure that there has been a prolific rise in the international tourist inflow of the country. Also, it reflects that the foreign tourist arrivals have increased by about 6 times during the last two decades. This may be due to the efforts put forward by the government and other stake holders to attract tourists throughout the world. The figure given below also highlights that the growth in foreign tourist arrivals has not remained consistent during the decades of 1980's and 1990's. There were some years like 2003, 2007, 2010 and 2014 that saw the double-digit positive growth. Contrary to these years, some years like 1991, 2001, 2002

and 2009 have maintained negative growth in the international tourist inflow of India (MOT, GOI report 2017).

Figure 2.2: Annual Foreign Tourist Arrivals of India from 1995-2016



Source: Authors' calculation based on World Tourism Organisation (2018).

The percentage share of India in international tourist arrivals is 1.17% ranking the country at 26th position at world level, and the share in Asia and the Pacific region is 4.81% ranking at the 7th position (MOT, GOI report, 2018). The report also highlighted that the share of India in international tourism receipts in USD terms is 2.05% ranking at 13th position in the world and the share in Asia and the Pacific region is 7.01 % with ranking of 7th position. Due to the efforts taken by MOT, GOI, the position of Indian tourism has improved over time. The percentage share of India's tourist arrivals in world tourist arrivals has increased from 0.39 % in 2000 to 1.17% in 2017 (MOT, GOI report, 2018). Similarly India's share of international tourist arrivals in Asia and the Pacific region has increased from 2.42 percent in 2000 to 4.81 % in 2017. The percentage share

of international tourist arrivals for India in world and the Asia and the Pacific region is shown in the table 2.1

Table 2.1: India's Percentage Share and Rank in International Tourist Arrivals of World and Asia and the Pacific (2000-2017)

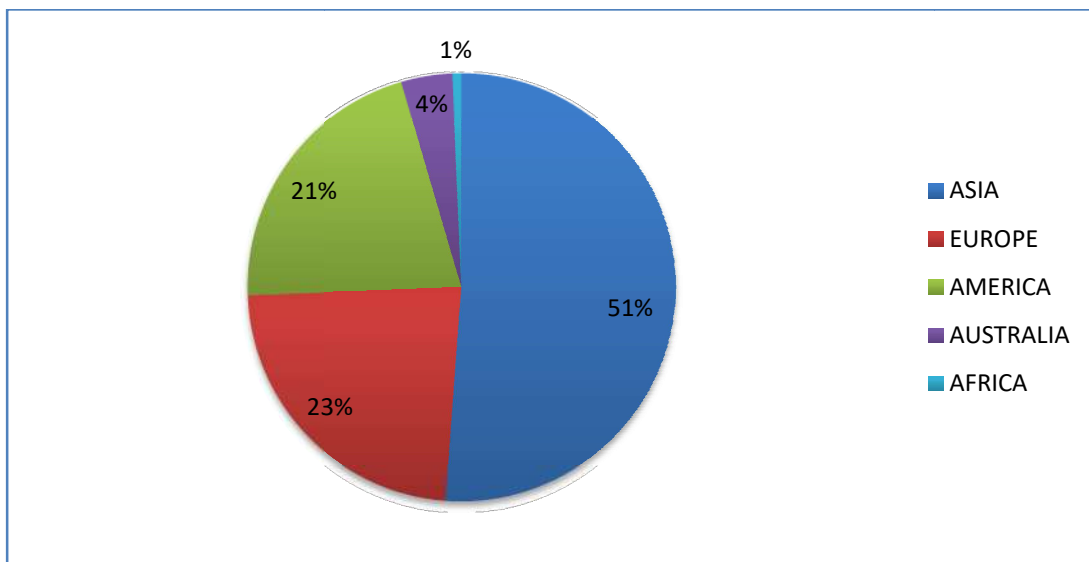
Year	Percentage share and rank of India in world		Percentage share and rank of India in Asia and the Pacific	
	% share	Rank	% share	Rank
2000	0.39	50 th	2.42	11 th
2001	0.37	51 th	2.22	12 th
2002	0.34	54 th	1.93	12 th
2003	0.39	51 th	2.44	11 th
2004	0.45	44 th	2.41	11 th
2005	0.49	43 th	2.53	11 th
2006	0.53	44 th	2.68	11 th
2007	0.57	41 th	2.79	11 th
2008	0.58	41 th	2.87	11 th
2009	0.59	41 th	2.85	11 th
2010	0.61	42 th	2.82	11 th
2011	0.63	38 th	2.89	9 th
2012	0.63	41 th	2.82	11 th
2013	0.64	41 th	2.79	11 th
2014	1.15	24 th	2.86	8 th
2015	1.11	24 th	2.68	7 th
2016	1.18	26 th	2.76	8 th
2017	1.17	26 th	4.76	7 th

Source: MOT, GOI report (2018).

The continent wise international tourist arrivals of India are shown in Figure 2.3. It can be clearly seen from figure that half of the international tourist arrivals of country in the

year 2016 belong to the continent of Asia followed by Europe, Australia, and America respectively. However, the least inflow of foreign tourists is from the continent of Africa. Further taking into consideration the region-wise tourist inflows of India, in year 2016 the maximum tourist inflow was from the region of South Asia with a percentage share of 24.93 percent.

Figure 2.3: Continent wise Foreign Tourist Inflow of India



Source: Authors' calculation based on World Tourism Organisation (2018).

India being one of the renowned tourist destinations has been a centre of attraction for different countries of the world. It has been a hub for tourists for both developed as well as developing countries. Table 2.2 presents the international tourist inflow for the years 1995, 2000, 2005, 2010, 2015 and 2016 from top tourist originating countries of India.

Table 2.2: International Tourist Arrivals of India from top 25 Tourist Originating Countries (Annual No. of Tourists)

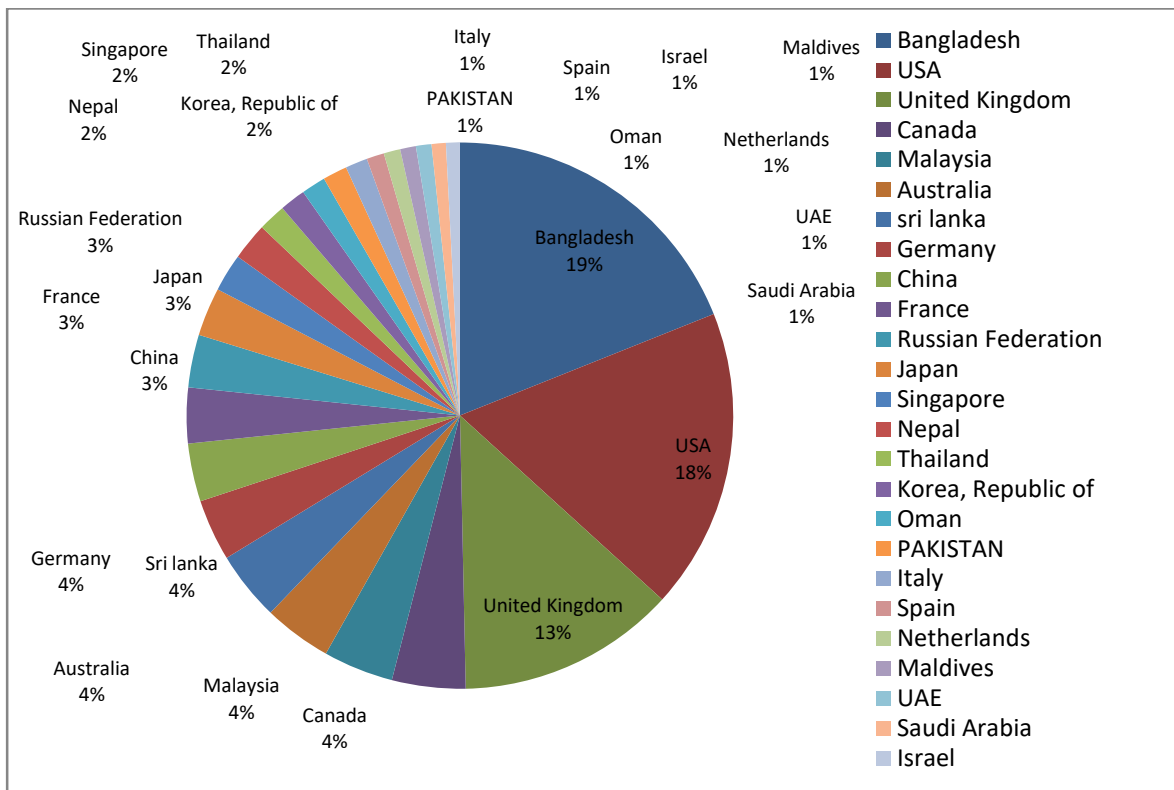
Country	1995	2000	2005	2010	2015	2016
Bangladesh	3,18,474	4,14,437	4,56,371	4,31,962	11,33,879	13,80,409
USA	2,03,343	3,48,292	6,11,165	9,31,292	12,13,624	12,96,939
United Kingdom	3,34,827	4,32,624	6,51,210	7,59,494	8,67,601	9,41,883
Canada	63,821	84,013	1,57,643	2,42,372	2,81,306	3,17,239
Malaysia	50,039	60,513	96,276	1,79,077	2,72,941	3,01,961
Sri Lanka	1,14,157	1,29,193	1,36,400	2,66,515	2,99,513	2,97,418
Australia	36,150	53,995	96,258	1,69,647	2,63,101	2,93,625
Germany	89,040	83,881	1,20,243	2,27,720	2,48,314	2,65,928
China	5,111	14,420	44,897	1,19,530	2,06,322	2,51,313
France	82,349	1,00,022	1,52,258	2,25,232	2,30,854	2,38,707
Russian Federation	17,243	16,545	56,446	1,22,048	1,72,419	2,27,749
Japan	76,042	98,159	1,03,082	1,68,019	2,07,415	2,08,847
Singapore	48,632	46,612	68,666	1,07,487	1,52,238	1,63,688
Nepal	34,562	38,801	77,024	1,04,374	1,54,720	1,61,097
Thailand	14,462	18,607	41,978	76,617	1,15,860	1,19,663
Korea, Republic of	9,831	23,411	49,895	95,587	1,02,993	1,11,076
Oman	17,060	12,616	14,979	35,485	1,03,740	1,05,705
Pakistan	42,981	54,902	88,609	51,739	1,24,924	1,04,720
Italy	53,015	50,419	67,642	94,100	88,091	95,417
Spain	24,411	26,050	45,247	72,591	65,694	76,342
Netherland	40,147	46,370	52,755	70,756	66,181	71,840
Maldives	699	21,633	33,915	58,152	68,907	67,457
UAE	19,749	22,559	24,560	45,482	55,818	67,165
Saudi Arabia	16,252	10,739	12,444	21,599	63,835	61,605
Israel	14,806	25,631	42,866	43,456	50,134	59,231

Source: Authors' calculation based on World Tourism Organisation (2018).

It can be clearly understood from the Table 2.2 that there has been a profuse increase in the international tourist arrivals of the country in last two decades. Moreover the data also reflects an interesting point that most of the countries (USA, UK, Canada, Australia, Germany, France etc.) that emerge as the top tourist origin countries of the country are very distant from the destination country. However the country Pakistan that is one of the closest countries to India occupies the 20th position in terms of visiting the country. This is mainly due to the long existing worsening political conditions between the two countries. The severity of which can be highlighted from the fact that the two countries fought several wars and witnessed many armed conflicts. Since from the day of partition the two countries are in conflict with one another that overshadow the relationship between the two countries, thereby affecting their economic development in general and the trade and tourism relationship in particular. Dhariwal (2005) also pointed out that the tension between India and Pakistan is one of the reasons that the country is not reaping the fuller benefits from its tourism sector. Therefore there is an important implication that political terms between the countries play an important role in affecting the tourism demand of the countries. Although there is very less distance between India and Pakistan but the political terms between them have always remained as a biggest hurdle in the tourism sector development of both the countries. This further suggests that the variable of distance as a determinant of tourism demand lacks relevance so far as the case of Pakistan and India is concerned. Table 2.2 also highlights that the major tourist inflow of the country frequently arrives from Bangladesh, United States of America and United Kingdom.

Next, Figure 2.4 shows the percentage contribution of the top 25 tourist originating countries of India for the year 2016. The figure reflects that majority of international tourist arrivals of India for the year 2016 are from Bangladesh with a share of 19 %, followed by the United States of America and the United Kingdom with a percentage share of 18% and 13% respectively. This implies that more than 50% international tourist arrivals of India are arriving from these three countries of the world. These three countries have emerged as the top 3 tourist origin countries of India continuously from the last two decades. Moreover the contribution of these 25 countries constituted about more than 80% (for majority of the period) of the total tourist inflow of India.

Figure 2.4: Percentage Share of Top 25 Tourist Origin Countries of India in the Year 2016



Source: Authors' calculation based on World Tourism Organisation (2018).

So far as the mode of transport for the international tourist arrivals of India are concerned, majority of the foreign tourists travel through air transport as compared to land and water transport. In the year 2016 out of total tourist arrivals 84.1% arrived by air transport followed by land and water transport with a percentage share of 15.0% and 0.9% respectively (MOT, GOI report, 2017). This highlights the fact that foreigners usually travel to other countries for the purpose of amusement and joy and therefore try to minimize the wastage of time spend on travelling. Moreover tourism being a luxurious-good, therefore tourists will prefer the mode of transport that will provide them maximum level of comfort.

Taking into consideration the monthly international tourist arrivals of the country, the tourist inflow in India is mostly concentrated in the months of November, December, January, February, and March (winter season) as compared to summer season for the years 2014, 2015 and 2016 (MOT, GOI report, 2017). This may be due to the pleasant weather conditions characterized by moderate temperature of the winter season. The international tourists particularly from countries with extremely hot temperatures come to India mainly in these months in order to relax and relieve themselves from the scorching temperature of their respective countries. The month wise international tourist arrivals of India are shown in Table 2.3 for the years 2016 and 2017.

Table 2.3: Month wise International Tourist Arrivals of India in the Year 2016 and 2017

Month	Year 2016 (No. of Tourists)	Year 2017 (No. of Tourists)
January	844553	946109
February	848782	931025
March	809107	885936
April	592004	717899
May	527466	622408
June	546972	663470
July	733834	779309
August	652111	719129
September	608177	719964
October	741770	866976
November	878280	997738
December	10221375	1167840

Source: MOT, GOI report (2018).

2.6: Contribution of Tourism Sector in Indian Economy

Developing Countries particularly those characterized by large scale of unemployment and poverty benefit immensely by attracting large number of tourists towards them. Therefore, tourism industry occupies a significant place in the growth and development of these countries. India being one among the most populous countries in the world with high levels of unemployment and poverty has witnessed the gains accruing from tourism sector. The tourism industry in India provided about 41,622,500 jobs to the people during the year 2017 and the country ranked at 2nd position interms of getting jobs from this industry (WTTC report, 2018). Moreover the industry contributed about 9.4 percent to the GDP of India in the same year which includes both direct as well as indirect benefits. Travel and tourism industry also benefits the country interms of increase in foreign exports and investment of the country.

The contribution of travel and tourism to the GDP of India has substantially increased over time. It has increased from 55.9 USD billion in the year 2000 to 277.1 USD billion in the year 2019 and therefore registering an annual increasing rate, that reached to the maximum record of 33.56% in the year 2007 (WTTC Data)^{iv}. However the data suggested that the share of travel and tourism to GDP (% share of GDP) altered significantly in recent years thereby showing a decreasing trend through the time period of 2001-2019. Similarly the share of travel and tourism to employment reached to 43649.9 thousand persons in the year 2019 and therefore registering a growth rate of 2.29% over the year 2018. Moreover the share of travel and tourism to employment (% share of GDP) for India in the year 2019 was 8.1% and therefore registering a growth rate

of 0.41% over the year 2018 (WTTC Data)^v. The contribution of travel and tourism in the GDP and employment of India can be clearly highlighted from the table 2.4 given below.

Table 2.4: Contribution and Percentage Share of Travel and Tourism to Indian GDP and Employment (2000-2019)

Year	Contribution of Travel and Tourism to GDP (in USD bn)	Contribution of Travel and Tourism to GDP (% of GDP)	Contribution of Travel and Tourism to Employment (thousand persons)	Percentage Share of Travel and Tourism to Employment (% of GDP)
2000	65.6	14%	47838.2	12.0%
2001	55.9	11.7%	40417.2	9.8%
2002	67.5	13.5%	45688.6	10.8%
2003	82.7	14.3%	48891.5	11.2%
2004	92.2	13.6%	49771.8	11.1%
2005	78.7	10.0%	42869.7	9.4%
2006	85.7	9.6%	43135.0	9.4%
2007	114.5	10.1%	47107.6	10.3%
2008	125	10.0%	38906.6	8.5%
2009	118.4	9.6%	36926.2	8.0%
2010	147.4	9.3%	36165.8	7.8%
2011	165.2	9.1%	37136.0	7.9%
2012	164.6	9.1%	37555.9	7.9%
2013	170.3	9.2%	38064.6	7.9%
2014	183.8	9.2%	39003.0	7.9%
2015	193.3	9.3%	39621.5	7.9%
2016	207.0	9.4%	40520.4	8.0%
2017	233.3	9.3%	41624.9	8.0%
2018	247.3	9.2%	42672.7	8.1%
2019	277.1	9.3%	43649.9	8.1%

Source: World Travel and Tourism Council Data.

India being a country is characterised with ancient and rich cultural and natural heritage. The diversified natural beauty of India, its festivals, dresses, cultures, fares etc. attract tourists throughout the world. The year 2017 was a bumper year for the tourist growth throughout the world (WTTC report, 2018). Similar was the case with India as the foreign tourist arrivals of India for the year 2017 were estimated to be 10.04 million with an annual growth of 14 percent. Similarly the national departures of India were estimated to be 23.94 million with an annual growth of 9.5 percent. In addition to the international tourist flows, the total number of domestic tourist visits to all states and union territories were estimated to be 1652.49 million with an annual growth of 2.3 percent. The Foreign Exchange Earnings (FEE) from tourism reached to a high record of Rs 177874 crores with an annual growth of 15.4 percent (MOT, GOI report, 2018).

Tourism sector significantly influences the Balance of Payments position of the country by earning foreign exchange. The FEE of India from tourism industry has registered positive growth over the years. The estimates provided by MOT, highlight that in FEE India has recorded a growth rate of 14% in the year 2016 over the year 2015 (MOT, GOI report, 2018). Moreover the FEE of India for the year 2016 were Rs 154146 crores as compared to the year 2015 in which the FEE were Rs 135193 crores. However, in terms of USD, the FEE from tourism sector were 22923 million USD in the year 2016 with a growth rate of 8.8% over the year 2015. Similarly the FEE of India from tourism during year 2017 were 27310 million (USD) with a percentage annual growth of 19.1%. The FEE of India during 2000-2017 are shown in Table 2.5:

Table 2.5: Foreign Exchange Earnings (FEE) of India from Tourism Sector (2000-2017)

Year	FEE of India from tourism (USD Millions)	Percentage growth
2000	3460	15.0%
2001	3198	-7.6%
2002	3103	-3.0%
2003	4463	43.8%
2004	6270	38.2%
2005	7493	21.4%
2006	8634	15.2%
2007	10729	24.3%
2008	11832	10.3%
2009	11136	-5.9%
2010	14490	30.1%
2011	17707	22.2%
2012	17971	1.5%
2013	18397	2.4%
2014	19700	7.1%
2015	21013	6.7%
2016	22923	8.8%
2017	27310	19.1%

Source: Source: MOT, GOI report (2018).

From Table 2.5 it is clear that the years 2000, 2003, 2004, 2007, 2008, 2010, and 2011 have witnessed double digit growth in FEE of the country. Conversely, from the year 2012 the growth rate of FEE slowed down up to year 2016. However the year 2017 was a bumper year for tourism sector of the country, thereby resulting in an increase of 19.1% in the FEE of the country (MOT, GOI report, 2018). Contradictory to these years the growth rate of FEE of India for the years 2001, 2002 and 2009 have shown a negative

growth. This highlights that for these years the tourism sector of the country was severely affected. The main reason for the negative growth in the FEE of the country can be attributed to the global economic slowdown. Moreover in 2008, the country also witnessed the dreadful Mumbai Attack that created a perception of fear among foreign tourists (Indian Institute of Tourism and Travel Management report, 2010). These factors led to cancellation of tickets by foreign tourists and therefore resulted in negative growth of FEE of the country.

2.7: Tourism in Jammu and Kashmir

The tourism industry is characterized of having multiplier and spill-over effects on other sectors of the economy. It has direct as well as indirect benefits for economic development of countries. Tourism sector has indirect impact on transportation, hotels and restaurants and agricultural products of the local economy. J&K is a union territory of India located in the Northern part of India. The union territory of J&K comprises of two divisions, Jammu-the winter capital of the union territory and is generally known as “City of Temples” and Kashmir Valley generally known as “Paradise on Earth”. Jammu region is very famous for its temples particularly the Mata Vishnu Devi Temple in Katra, that is usually visited by more than 10 million religious tourists every year. Similarly Kashmir valley is very famous for its natural beauty, pleasant climatic conditions, snow capped mountains, fascinating Mughal gardens, fresh water lakes, lush green meadows and adventure tourism. The prime tourist attraction of J&K include Gulmarg, Pahalgam, Patnitop, Katra, Bahu Fort, Mansar Lake, Dal lake, Charming Mughal gardens (Nishat and Shalimar), Kokernag, Verinag, Achabal etc. The region has been bestowed with

pleasant climatic conditions with rich flora and fauna. J&K has huge tourism potential both for domestic as well as foreign tourists. Kashmir valley is very famous for its handicraft skills, Pashmina shawls, carpets, wood carving work, paper mache, dry fruits etc. The tourists while visiting the region make purchases of these local products and therefore the sector plays a crucial role in enhancing the market for local handicrafts and agricultural products of the region. All these features of J&K have resulted in huge tourist inflow from last many decades to the region and therefore improving the economic development of the region.

2.8: Major types of Tourism in Jammu and Kashmir

Some of the chief types of tourism that attract huge tourist inflow in J&K are as follows:

2.8.1: Recreational Tourism: Tribe (2011) has defined recreation “as the pursuit of leisure activities during one’s spare time”, and it includes a wide range of activities like sightseeing, fishing, golfing etc. Recreational tourism therefore involves the movement of people in their leisure time for the sake of getting rest from their daily busy schedule to restore their physical and mental strength. This type of tourism is mostly widespread throughout the world. The importance of recreational tourism is constantly increasing from ecological and economic point of view. In J&K there is vast potential of nature based recreational tourism. People across the world come and enjoy the various beautiful places of the region for the recreational purpose. The various places of J&K that are world famous for recreational tourism are as follows:

2.8.1.1: Gulmarg: It is located about 52 kilometers away from Srinagar. It has remained as the centre of attraction for tourists round the world from its early existence. Gulmarg was first named as Gaurimarg, however it was renamed as Gulmarg by Sultan Yousuf Shah of the Chak dynasty who frequently used to visit the place with his queen Habba Khatoon in 16th century (Chaturvedi, 2002). It is a charming hill station situated at an altitude of 2653 metres. In spring season the slopes of Gulmarg get covered with profusion of daisies, butter cups, blue bells etc. and thereby adding extra prettiness to the greenish meadows. It is very well-known for its thick snow clad mountains during the winter season, thereby captivating the heart of tourists throughout the world for skiing, snowboarding, skating etc. The beautiful place is also in possession of one of the highest and finest green golf course in the world. It is also famous for pony rides throughout the green meadows and hill stations. The place is also famous for Gulmarg Gondola (one of the highest cable cars in the world). The place is also attracting rush of national and international tourists due to its huge potential of winter sports and thereby has been rated among the Asia's seven best ski resorts ("Gulmarg among 7 top ski resorts of Asia," 2010, November 24)^{vi}.

2.8.1.2: Pahalgam: Pahalgam is an important tourist destination located about 45 kms from district Anantnag at an altitude of 7200 feet on the banks of river Ladder. It is a very famous hill station with lush green meadows and pristine waters that attracts huge tourist inflow to the destination. The main attractions of the destination are Kolhai Glacier-that is a hanging glacier situated just below the famous Kolhai peak of Himalyan range, and Betaab valley located at a distance of 15 Kilometers from Pahalgam. The valley is also an

important camp site for the travelers and serves as base camp for tourists who go for trekking. Pahalgam is also famous for its rich flora and fauna. The stunning place is also home to some endangered and rare species of animals like hangul, leopard, brown bear and musk deer etc.

2.8.1.3: Sonmarg: Sonmarg literally meaning meadow of gold, 85 kilometers away from Srinagar is an unmatched landscape located in district Ganderbal of J&K. The place is carrying in its lap important peaks which include Kolhoi Peak, Amarnath Peak and Sirbal peak. The prime attractions of the place are Vishankar Lake, Zoji La Pass, Nilagrand River, Thajiwas glacier, river rafting at Shutkar bridge, Krishnasar lake and Baltal valley. The Department of Tourism, J&K organizes river rafting tournament in Sonamarg in which tourists from round the world participate. The river Sindh that meanders through the valley of Sonmarg is rich in trout which is a very famous fish type of J&K.

2.8.1.4: Bahu Fort: Bahu Fort is located at just 5 kilometers away from Jammu city and stands tall on the left bank of river Tawi. It is believed that the fort has been constructed 3000 years ago by Raja Bahulochan, thereby making it one among the oldest monuments of the city. There is also a hindu temple popularly known as ‘Bave Wali Mata Mandir’ and is also called as Maha Kali mandir. The fort is surrounded by an extensive terraced garden called Bagh-e-Bahu. Bagh-e-Bahu also carries the country’s largest underground aquarium that carries different varieties of charismatic fishes and therefore attracts huge flow of tourists since its opening to the public.

2.8.1.5: Jammu city: Jammu popularly known as city of temples and beautiful palaces constitutes the south most region of J&K. The important places of religious importance to visit in Jammu are Bahu Fort and Garden, Jasrote Mata, Mata Sukrala, Mansar lake, Purmandal, Akhnoor, Jajjar Kotli, Salal Dam and Lake, Mubarak Mandi Palace etc.

2.8.1.6: Mansar Lake: Mansar lake located at about 64 kilometers away from Jammu city attracts huge tourist inflow for its scenic beauty. The lake with about one mile length and half mile width has crystal clear waters that attract huge flow of tourists for boating. For the recreational purpose boating facilities are also available in Mansar Lake. The place is also very rich in flora and fauna and is characterized of having wild life sanctuary that provides shelter to wild animals including Deer and Neelgai and several water birds.

Besides being an important tourist destination the lake is also an important holy site. In the periphery of the lake there are numerous temples of Sheshnag, Umapati Mahadev, Narsimha and Durga that attract huge rush of devotees throughout the year (JK Tourism Department)^{vii}.

2.8.1.7: Srinagar: The summer capital of J&K is world famous for its splendid representation of nature. Srinagar holds the Asia's largest lake-the Dal Lake and various Mughal gardens in its lap. Among the places that one should visit while visiting the valley are the peaceful waters of Dal Lake that finds the first place. The wooden shikara that floats over the mesmerizing waters of Dal lake is most soothing and relaxing aspect of tourism in Kashmir. The beautiful Mughal gardens (Nishat and Shalimar) build on the periphery of Dal Lake is really adding beauty to Kashmir. During the summer season the

tourists all over the world come and enjoy the pleasant climatic conditions, lush green gardens and mesmerizing waters of Srinagar. The other places of interest that one needs to visit in Srinagar are Tullip garden, Pari Mahal, Chashmai Shahi, Hazratbal Shrine, Nigeen Lake, Shankar Acharya Temple, Badam Wari etc.

2.8.2: Adventure tourism: J&K being bestowed with huge mountains, beautiful rivers and streams has huge potential for adventure tourism. Kashmir is not only world famous for its natural beauty but there is an array of attractions that capture the eyes of tourists to come and visit the valley. Among these attractions the adventure tourism occupies an important place. There are multitudes of things for adventure loving tourists. The places that are important for adventure tourism in J&K are Gulmarg, Sonmarg and Pahalgam. The most important forms of adventure tourism in J&K are as follows:

2.8.2.1: Mountaineering: The Mountains of J&K fall in the category of Alpine and Himalyas. The important zones for the purpose of mountaineering in the union territory are Kashmir, Zanskar and Kishtawar where the mountain climbing is very popular.

2.8.2.2: Trekking: Trekking forms an important part of J&K's adventure tourism particularly for those who want an unspoiled natural beauty. The main areas of attraction for Trekking in Kashmir are Sindh and Lidder valley that are characterized by high altitude meadows.

2.8.2.3: Rafting: In Kashmir there is an immense potential for adventure tourism. The Lidder River of Pahalgam flowing through different rocks, forests, flowers and high mountains provides tourists the perfect water adventure tourism. The practice of rafting is

usually done in the upper reaches where the water is characterized to be feral and white, roaring against narrow gorges and falls at deep slopes. The best period for enjoying river rafting is usually from April to September.

2.8.2.4: Para-gliding: The adventure tourists can really enjoy the aero-sports activities like paragliding in the valley. Among the range of aero-sports activities para-gliding is most popular that takes one on a tour to green valleys and eye-catching mountains of Kashmir. In Jammu there are number of Para-gliding adventure clubs in Sanasar and Batote that provide the paragliding amenities to tourists (JK Tourism Department). Moreover in Jammu and Sanasar proper training camps are organized for Para-gliding.

2.8.2.5: Skiing: Gulmarg (the meadow of flowers) not only attracts rush of tourists in summer season but is considered as the best place for skiing in the range of Himalyas. Skiing is one of the prime attractions of Kashmir Valley. Gulmarg is also famous for the world's highest cable car enabled ski resorts due to the gondola cable car. The best period to enjoy skiing in Gulmarg is from the month of December to April.

2.8.2.6: Golfing: Kashmir also provides the opportunity for playing golf in very calm and healthy surroundings. The golf course at Srinagar provides a chance of playing golf for almost throughout the year. However the world's one of the finest and highest green golf course at Gulmarg remains covered under snow for the period of December to April .

Other important activities that tourists love to experience in J&K are Shikara boat rides, mountain biking, angling, horse riding etc.

2.8.3: Religious tourism: Religious tourism occupies an important place in tourism sector, which is considered as the backbone of J&K economy. The region acts as a centre of attraction for almost all the major religions like Muslims, Hindus, Sikhs, Christians etc. The Kashmiri Pandits are mainly followers of Lord Shiva and have numerous places of worship in the region, but the two religious places that hold greater priority among almost all the hindu religious tourists include Mata Vishnu Devi Temple and Amar Nath Cave. In spite of being the region witnessing serious law and order issues; the rush of visitors to these two religious places is so large that sometimes it becomes very difficult to manage the pilgrims. The city of Jammu popularly known as “City of Temples” is mostly famous for religious tourism and therefore attracts the major flow of domestic tourism. The important places of religious importance to visit in Jammu are Raghunath Temple, Mata Machail Temple, Jasrote Mata, Mata Sukrala, Mansar lake, Peer Kho Cave Temple, Bawey Wali Mata Temple etc. Kashmir valley which is also known as “Peer Vaer” (saints’ place) also occupies loads of religious places in its lap. The important places of religious significance in Kashmir valley include Kheer Bhawani Temple, Jamia Masjid, Chare-e- Shareef, Shankar Acharya Temple, Shrine of Dastgeer Sahib, Shrine of Mukhdoom Sahib etc.

2.8.4: Eco-tourism: J&K, the Northern most union territory of India is very famous for its tourism potential. The beautiful gardens, heart captivating hill stations, heritage and cultural sites usually remain the centre of attraction for tourists throughout the world. Additionally the place is also very rich in “nature-wildlife based” popularly known as ecotourism. In contemporary times the notion of ecotourism has gained universal

importance because of its ecological and environmental importance. Therefore the places bestowed with tourism potential, should be given due consideration for the practice of promoting ecotourism. J&K is also well known for its various ecotourism sites which include Jasrota Wildlife Sanctuary, Surinsar and Mansar Wetlands, Ramnagar Wildlife sanctuary (Jammu), Nandini Wild Life Gharana Wetland Reserve Sanctuary, Hokersar Wetland, Dachigam National Park, Overa-Aru Wildlife Sanctuary and Gulmarg Wildlife Sanctuary

2.9: Contribution of tourism in J&K Economy

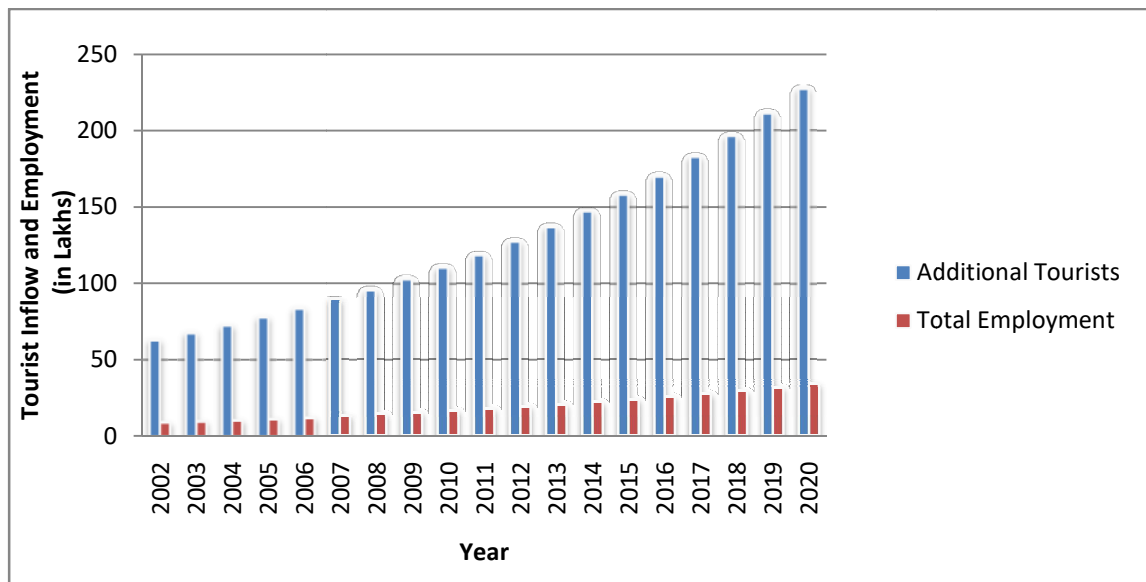
In modern times tourism has emerged as a major industry with giants share in GDP, employment, investment level and export earnings of the countries, hence opening window for the social and economic development of local population of the area at large. Tourism being a labor intensive industry can play an influential role in removing the threats of poverty and unemployment among countries, particularly the developing countries like India characterized by large scale unemployment. J&K being hilly in terrain with arctic and temperate climate conditions has put a constraint on agricultural and industrial development; however, the chances of tourism led growth seem to be enormous. The region being bestowed with huge tourism potential provides enough opportunities to generate employment to large number of people in the region. One of the prominent features of tourism sector is to create employment for the skilled, semi-skilled and unskilled labor force of the destination place. The sector has the potential to create employment opportunities for the remote and backward areas of the region. In comparison to other economic sectors, tourism industry is highly labor intensive. In a

study conducted by WTTC it was revealed that spending Rupees ten Lakh on hotel and tourism industry has the potential to generate 89 new jobs, however, spending the same amount can generate only 45 jobs in agriculture and 13 jobs in manufacturing (Santek Consultants Private Limited New Delhi)^{viii}. This implies that tourism sector has huge potential to create new employment opportunities for the people of the destination place.

The tourism related employment can be categorized under three major headings: First is in terms of direct employment that includes selling of goods and services like hotels, restaurants, transportation, entertainment and shops directly to the tourists; second is in terms of indirect employment, which includes creating employment opportunities via supply of goods and services to the tourism businesses and third one measures the income and employment generated by the expenditures of those economic agents who are directly or indirectly employed by the tourism industry (WTTC report, 2018). Taking into consideration the employment generation capacity of the tourism industry, Santek Consultants projected in their report, the impact of tourist inflow on employment generation of J&K for the time period 2002-2020. The data reflected that there exists a positive relationship between employment generation and tourist inflow of J&K. The data highlighted that the employment generation capacity of the union territory will increase from 9.425 lakhs in the year 2002 to 34.062 lakhs in the year 2020. This implies that the employment generation capacity of the tourism industry in the region will increase about four times in the period of just 18 years. In order to achieve this target of increasing the tourism related employment generation capacity of the region, it is crucial that the stakeholders of J&K that is government, private bodies and general public should join hands

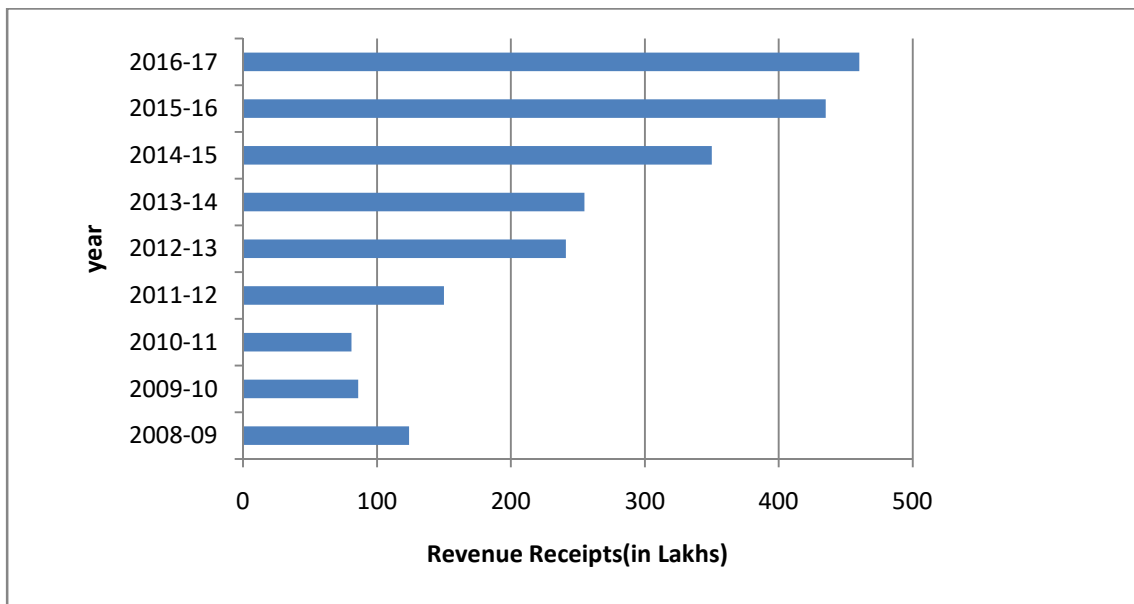
and work in a systematic and cordial manner. The relationship between tourist inflow and employment generation can be understood from the Figure 2.5.

Figure 2.5: Tourist Inflow and Employment Generation in J&K (2002-2020)



Source: Authors' calculation based on Santek Consultants report.

Tourism sector is also characterised of generating income for the people of the destination place. Even though the industrial sector is not developed much in J&K, large proportion of revenue is generated from this industry depending upon, the circumstances remain normal in the region. Figure 2.6 shows how the revenue receipts from tourism sector in J&K have increased over time from the year 2008-09 to 2016-17.

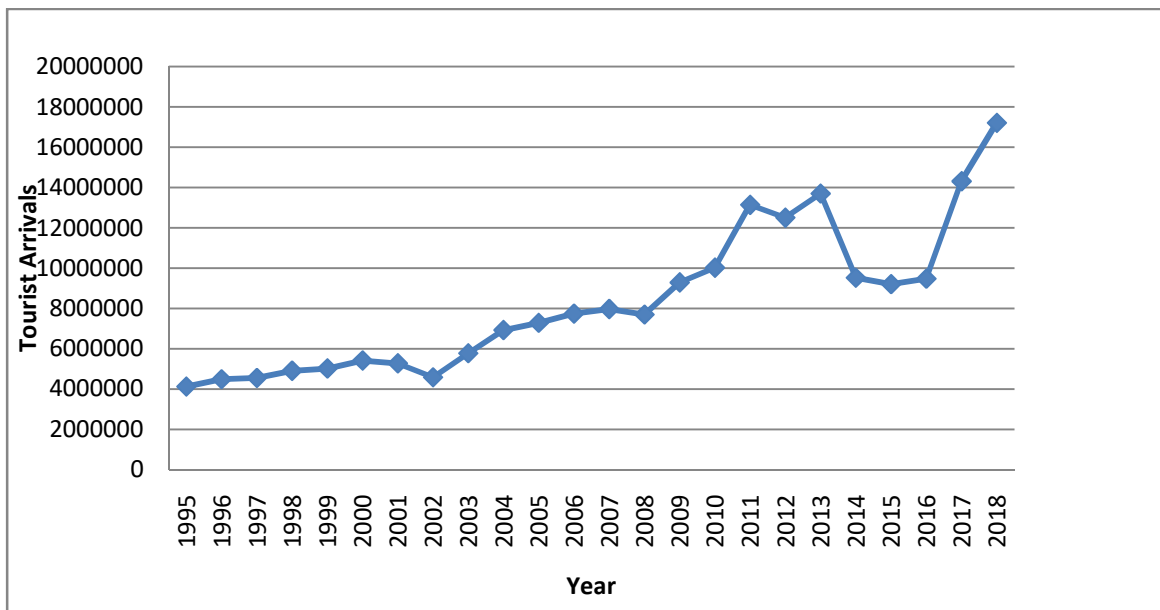
Figure 2.6: Revised Estimates of Revenue Receipts from Tourism Sector in J&K

Source: Authors' calculation based on "State Finances: A Study of Budgets" data published by RBI (various volumes)^{ix}.

Although J&K is bestowed with huge tourism potential, but the sad reality is that the region has not attracted huge tourist inflow from last two decades, thereby preventing the region from reaping the fuller benefits from the sector. This is mainly due to the continuous armed conflict and political turmoil in the valley that portrays an image of the region as killings, human rights violation, armed conflict and thereby hampering the tourism sector development of J&K. Before the inception of political turmoil in the valley the tourism sector growth of J&K was unparalleled in any part of the country. J&K was enjoying a paramount position in the sector with huge tourist inflow of both domestic and foreign tourists. The infrastructural facilities was such that, the state had such a number of availability of beds to meet the accommodation needs of visitors, that at one time was the sum of total of remaining all the states of the country (Santek Consultants report). However soon after the period of 1989-90, with the emergence of political turmoil and

armed conflict in Kashmir, there was fall down in the local economy in general and tourism sector in particular. Therefore tourism sector which was flourishing before the dawn of political instability in the region was severely affected by the bloodshed related with armed conflict and political turmoil in the valley. The impact of armed conflict and political turmoil on the tourism industry of J&K can be clearly understood from Figure 2.7.

Figure 2.7: Total Tourist Arrivals in J&K (1995-2018)



Source: Author's calculation based on "India Tourism Statistics" data published by MOT, GOI (various volumes)^x.

It can be clearly understood from the Figure 2.7 that the growth of tourism sector in J&K has not followed a smooth trend. Although there are some years that have witnessed a smooth growth over the previous year, however there are years like 2002, 2008, 2012, 2014, 2015 and 2016 that have shown a drastic fall in the tourist arrivals of J&K. This is mainly due to the continuous political turmoil and the resulting armed conflict in the

region. Additionally the other reasons for the poor performance of tourism sector are lack of proper tourism policy, undeveloped destinations, lack of proper connectivity, poor coordination between departments, lack of training infrastructure and hospitality, low government spending on tourism sector etc. (Santek Consultants report).

Chapter 3

Determinants of International Tourism Demand in India

3.1: Overview

Tourism sector has been considered as the key sector of economic growth. Policy makers and practitioners need key insights for growth and promotion of this sector. Identifying the determinants of tourism demand may help to recognize and reformulate tourism and growth policies. The present chapter tries to empirically analyse the determinants of international tourist arrivals to India. To carry out the empirical analysis, the study is based on panel data of 27 top tourist originating countries of India during the time period from 1995 to 2016.

The remaining part of the chapter is organised as follows: the next section 3.2 provides a brief introduction as prelude to the empirical analysis and section 3.3 discusses review of literature. The section 3.4 presents the data sources and adopted empirical methodology. Results and analysis are discussed next in section 3.5. Finally section 3.6 concludes and provides some policy implications.

3.2: Introduction

In addition to the flow of goods and services, the travel and tourism industry has become an important social and economic activity across different countries of the world. This is mainly on account of its potential in the generation of job opportunities, creating various means of earning income and drives exports across the world (Blake and Sinclair, 2007;

Mbaiwa, 2003; Archer and Fletcher, 1996). A constantly increasing number of international tourist flows across the world has increased the investment level in the tourism sector and has made tourism a key driver for socio-economic development (Tapper, 2001; Mbaiwa, 2003). As per the WTTC report (2018), 2017 was a bumper year for the growth of the tourism sector with growth rate of 4.6% much faster than the growth rate of economy as a whole, and created 7 million new jobs across the world. The report also highlighted that travel and tourism is a dynamic engine of growth that supports one in every 10 jobs of the planet. During the past 10 years almost one in every five jobs has been contributed by the tourism sector. Additionally, it also mentions that with strong government support and efficient regulatory quality in the tourism sector, around 100 million new jobs could be created over the decade ahead.

One of the major policy concerns across the countries is to have inclusive growth and to assure a future with quality jobs. The total contribution of travel and tourism to world GDP in the year 2017 was accounted to be USD 8.3 trillion that constituted 10.4% of world GDP and is expected to rise to 11.7% of world GDP in the year 2028. The total contribution of travel and tourism sector to global employment was 9.9% (313 million jobs) of total employment in the year 2017. This is expected to rise to 11.6% of total employment in the year 2028. Travel and tourism is also a foreign exchange earning (FEE) industry that attracts foreign spending to a country in the form of international visitors. The visitor exports in the year 2017 across the world reached a high record of USD 1.5 trillion that accounts for about 30% of world exports in services and 6.5% of total world exports. The investment in the tourism sector across the world in year 2017

was 4.5% of total investment and is forecasted to rise to 5.1% of the total investment in the year 2028. In year 2017, out of the total travel and tourism contribution to GDP, 77.5% (USD 4.2 trillion) was of leisure travel spending (inbound and outbound) and the remaining 22.5% (USD 1.2 trillion) for business spending. In the total travel spending, 72.7% of the contribution is due to domestic travel spending and the share of foreign travel spending is only 27.3% (WTTC report, 2018).

India is one of the preferred tourist destinations of the world and India ranks at the seventh spot interms of world heritage sites, with 38 such sites (United Nations Educational, Scientific and Cultural Organisation, 2021). The importance of tourism for the Indian economy is enormous as it stimulates growth, creates employment and is a source of FEE and revenue for the government and many more. The tourism industry in India is one among the major industries and is continuously growing. The travel and tourism industry has both direct as well as indirect effects on the process of growth and development. The direct benefits include the growth interms of increasing transportation, accommodation, entertainment, food and beverage services, cultural, sports and recreational services. The indirect and induced services include travel and tourism investment spending, expenditures by the tourists etc. With the development in the tourism sector, the investment level can be pushed up in basic infrastructures, construction of new roads, hotels, airports, railway lines, and resorts.

The importance of tourism industry in India is clearly highlighted by the WTTC report (2018). The report puts India at 7th position out of 184 countries interms of the impact of

the travel and tourism on Gross Domestic Product (GDP). The report highlights that travel and tourism contributed around USD 234 billion to India's GDP which is about 9.4% of GDP in the year 2017. It is believed to rise to 9.9% in the year 2028 with a growth of 6.9% per annum. Out of total contribution to GDP in the year 2017, the direct contribution of trade and travel on GDP was around USD 1.3 billion that constitutes about 3.7% of total GDP. Tourism not only enhances the income of the people of a country, but also provides various jobs to the local residents, and therefore further increases the potential benefits to the destination country. Therefore, in developing countries like India with huge labor force, the tourism sector can play a vital role in reducing the unemployment and poverty, and thereby can be an important determinant for ensuring inclusive development of these countries. The Report of WTTC (2018) ranks India at 2nd position in terms of getting jobs from this industry. In India, during the year 2017 travel and tourism annually created around 41,622,500 jobs, which constituted about 8% of total employment and is predicted to rise to 8.4% in the year 2028. Out of this, the direct contribution includes 33,195,000 jobs which constitute about 5% of total employment of India. The report also highlighted that the Travel and Tourism industry in India is a key source for earning foreign exchange. Out of the value of total exports in India, the contribution of the travel and tourism industry is USD 27.3 billion which constitutes about 5.8% of total export value. The contribution of travel and tourism investment was USD 41.6 billion that constitutes about 6.3% of total investment in the year 2017 (WTTC report, 2018).

Tourism has been recognized as an engine of growth. Taking into consideration the potential of the travel and tourism industry and increasing globalization, the tourism industry has become more competitive now. Government and policymakers across the countries compete with each other to attract more and more visitors towards their respective countries. Given the benefits of the tourism industry for the development of countries across the globe, it has become important for policymakers to identify the various determinants that influence the tourism demand of a particular destination. Identifying the determinants of demand for tourism provides insights about the policy orientation and highlights the areas of potential intervention. Since the time tourism studies have emerged as an academic field, the economists throughout the world have focused on the determinants of tourism demand (Crouch, 1994a, 1994b; Witt and Witt, 1995; Kosnan *et al.*, 2013; Culiuc, 2014; Naude and Saayman, 2005; Eilat and Einav, 2004; Dogru *et al.*, 2017 and many more). However, the existing literature on tourism demand has mainly focused on the impact of income of the origin countries, price level, exchange rate, and distance as determinants of tourism demand. In Indian context, there is also some literature available on tourism, however more pronounced towards analyzing the importance of tourism in growth and employment generation (Mishra *et al.*, 2011; Georgantopoulos, 2013; Kaur and Sarin, 2016). Only few studies have focused on examining the traditional determinants of tourism demand in India (**Gupta and Singh, 2015**; Dhariwal, 2005; Parida *et al.*, 2017). Some of the studies have analysed the role played by factors like communalism, terrorism and crime on the tourist inflow of the country (Dhariwal, 2005; Ranga & Pradhan, 2014; Parida *et al.*, 2017). The

available tourism literature particularly in India has not taken into consideration besides many traditional determinants the impact of trade and corruption on tourism demand. As none of the studies, so far to our knowledge has analyzed the impact of these determinants on the tourist inflow of India. Taking into consideration the importance of the tourism sector in the social and economic development of India, the present study has tried to empirically analyze the main determinants of tourism demand in India with special focus on trade openness and corruption. Such context specific studies assume added importance and thus bridges existing gap in the economic literature on tourism demand with reference to India.

3.2: Review of Literature

Vast strands of literature are available throughout the world where economists have focused on the determinants of tourism demand (Crouch 1994a, 1994b; Witt and Witt, 1995; Kosnan *et al.*, 2013; Eilat and Einav, 2004; Naude and Saayman, 2005; Culiuc, 2014). However, the tourism demand estimation models differ to a great extent in terms of the nature of the dependent and independent variables, methodologies employed, tourist destination and origin countries and the time period used for the analysis. One of the fundamental research questions is to identify the variables used as proxies for tourism demand and its determinants. Lim (1997) in his meta-analysis found that tourist arrivals and tourist expenditures are mostly used dependent variables that represent demand for tourism. Some of the studies have used other proxies for tourism demand like tourism receipts, tourist expenditures and length of the stay (Gokovali *et al.*, 2007; Akal, 2004; Chu, 2011).

Vast array of independent variables (as determinants of tourism demand) have been used across the studies. Lim (1997) revealed that income of the tourist origin countries, prices, transportation costs and exchange rate are commonly used variables. Income has been traditionally considered as one of the imperative determinants of tourism demand and number of studies has tried to analyze its impact on tourism demand. Lim (1997) in his meta-analysis found that out of 118 studies, 83 have examined the impact of income on tourism demand. This signifies the role played by income as a chief determinant of tourism demand. Dogru *et al.* (2017) while analyzing the tourism demand of Turkey used real GDP per capita as a proxy for income in three models. However, in another model, the author used the Industrial Production Index (IPI) as a proxy for income because of the unavailability of GDP data on monthly basis. The study revealed that the impact of income on tourism demand does not count much when IPI is used as a proxy variable. However, when GDP is used as a proxy for income, the results were statistically significant. The main reason for this is that IPI includes only the contribution of the industrial sector, and excludes the contribution made by primary and tertiary sectors (Dogru *et al.*, 2017). The results therefore highlighted, that GDP is better proxy of income for predicting the tourism demand. Similarly, Salleh *et al.* (2007) while analyzing the tourism demand in Malaysia highlighted the prominent role played by income and tourism prices in international tourist inflows. Martins *et al.* (2017) while analyzing impact of macroeconomic determinants (world GDP per capita, relative tourism prices, and exchange rate) on the inbound tourist arrivals for a panel of 218 countries concluded that GDP, used as a proxy for income is the essential determinant of tourism demand

when tourist arrivals is used as dependent variable. However, the relative price between the tourist destination and tourist origin country (used as a proxy for tourism price) is the most important determinant of tourism demand, when tourist expenditure is used as dependent variable. Moreover, the study also highlighted that world income as a determinant of tourism demand is important in explaining the tourism demand models of high-income countries as compared to the middle and low-income countries, where relative prices play important role in the determination of tourism demand. The variable of income plays a crucial role in tourism demand determination captured through various proxies like tourist arrivals, length of stay of tourists and spending of the tourists at the tourist destination. Gokovali *et al.* (2007) while studying the various determinants of tourism demand in Bodrum, Turkey used the length of stay as a proxy for tourism demand. The authors conducted their survey using a questionnaire and found that the income of the tourists has positive and significant impact on the spending of tourists. Therefore, the results suggest that the economic conditions of the tourist origin countries play an important role in the spending of tourists and thereby improving the economic conditions of the destination countries. Garin-Munoz (2006) while studying the tourist demand, in the Canary Islands used the GMM-DIFF model proposed by Arellano and Bond (1991) and found that the income of the tourist originating country and the previous visits of tourists has positive and significant influence on the tourist arrivals of the Canary Islands. Therefore, signifying that the tourists prefer to visit those countries they are familiar with, as compared to the tourist destination they have never visited before. Kulendran (1996) in his study, tried to analyze the long term equilibrium relationship

between tourist inflows and its various determinants (income, price, and airfare) and the author found that the long-run income elasticity for the countries of origin is greater than one and therefore implying that the demand for tourism is considered as a luxurious-good. The findings of the study are in conformity with the studies of Kim and Song (1998) and Song and Witt (2000) who in their studies also suggested that tourism demand is more sensitive to income and price changes in the long-run as compared to the short-run. **Ferro Luzzi** and Fluckiger (2003), Eilat and Einav (2004) and Balli *et al.* (2016) also recommended that tourism is a luxurious-good with income elasticity greater than one, therefore suggesting that income is highly important in explaining the international tourist inflows. In contrast to these studies, Naude and Saayman (2005) and Dritsakis and Athanasiadis (2000) found that income of the foreign countries is not much important in explaining the tourism demand of the destination country. Naude and Saayman (2005) while analyzing the tourism demand of Africa found that the tourism demand of Africa for European countries is an inferior good with negative income elasticity for the origin countries. The authors highlighted that tourism demand for Africa is more sensitive to the tourism infrastructure and political stability rather than to changes in income.

Price and inflation rate present in a particular country has traditionally been considered as an important determinant of tourism demand. However, the inclusion of price levels in the tourism demand estimation exercise has always remained a big challenge. The difficulty comes from the issue, that various indices of tourism prices are not readily available. Different studies have used different proxies like GDP deflator, Consumer Price Index, Relative Price, etc. Eilat and Einav (2004) used the relative cost of living

index in the destination country to the prices in the origin country. The study found that tourism demand of developed countries is highly sensitive to price changes. However, it is insensitive to price changes in low developed countries. Uysal and Crompton (1984) while analyzing the various determinants of tourism demand in Turkey highlighted the importance of relative prices in tourism demand. Balli *et al.* (2016) while analyzing the impact of immigration and institutional quality on bilateral trade flows found that inflation and exchange rate volatilities have a significant impact on international tourist inflows. In concern with the importance of reducing the deficit in the US travel account; Kwack (1972) suggested that it is the reduction in prices of US goods and services to foreign travelers that can be effective. This suggests the importance of prices in determining the tourism demand of the country. The findings of the author also revealed that a reduction in the US price level has a significant impact on the US deficit ratio and highlighted that 1% decrease in the US price level can reduce the US deficit by 3.2%. Using the relative price based on CPI calculations, Salleh *et al.* (2007) investigated the short-run and long-run relationship between tourist arrivals and price levels in Malaysia. The study held that prices have negative and significant influence on the tourist inflows of the country. Moreover, the substitute prices were also found to have positive and significant impact on the tourism demand in Malaysia. However, Manuela and Vera (2015) while studying the impact of government failure on tourism in Philippines revealed that CPI should not be used as a proxy for tourism price because CPI takes into consideration the changes in the price of commodities that are used for daily consumption while as tourism-related prices are considered as luxury expenditures.

Some authors have used the exchange rate as a proxy for tourism price because of the easy availability of data (Lim, 1997). However, using the exchange rate as a proxy for tourism price has become very much controversial and resulted in some methodological issues in tourism literature. Like, some authors (Song and Wong, 2003 and Song and Witt, 2006) hold that prices standardised by the exchange rate should be used as a proxy for tourism prices. Against this, some studies have used both exchange rate and prices standardised by the relevant exchange rate for prices (Martin and Witt, 1988 and Uysal and Crompton, 1984). However inclusion of prices standardised by the exchange rate along with an additional exchange rate creates modeling bias resulting from the multicollinearity (Martin and Witt, 1987). Dogru *et al.* (2017) also hold that exchange rate and prices standardised by exchange rate when included individually in a model led to statistically insignificant results. This is mainly due to the occurrence of high level of correlation between the variable of exchange rate and relative prices standardised by the exchange rate used as a proxy for tourism prices (Martin and Witt, 1987). However, prices when standardized by the bilateral exchange rate changes the whole story. Therefore, they suggest that prices standardized by the exchange rate should be used as a proxy for the tourism price. Contradictorily to the above studies Deluna and Jeon (2014) and Naude and Saayman (2005) revealed that price has no significant influence on tourism demand. Their results corroborate with the result of Eilat and Einav (2004) and Crouch (1995) who claimed that tourism in less developed countries is not much sensitive to change in the price levels.

The available literature has considered exchange rate as another important determinant of tourism demand. Salleh *et al.* (2007) and Martins *et al.* (2017) while highlighting the importance of exchange rate as an important determinant of tourism demand found that an increase in the exchange rate of the destination countries induces more tourists from the origin countries to travel to the destination country. The authors highlighted that this may be mainly due to the easy availability of the information related to the exchange rate that people take into consideration while making tourism decisions. Balli *et al.* (2016) also found that the variables like exchange rate and inflation rate volatilities of the destination countries have significant influence with expected signs on tourism demand. Culiuc (2014) also revealed that the tourist inflows of the destination countries are strongly responsive to changes in the real exchange rate. Further, the study revealed that the real exchange rate has also a strong influence on the duration of stay. Uysal and Crompton (1984) also found that exchange rate has positive and strong effect both on the number of tourist arrivals as well as on the tourist expenditures in all the countries with few exceptions. The study found that tourist generating countries were more responsive to exchange rates because its elasticity was very high ranging between the values of 1.094 to 6.636. Gokovali *et al.* (2007) also found that although the devaluation of the Turkish Lira increased the number of tourist arrivals, however, it does not influence the stay of tourists.

The lagged dependent variable as one of the explanatory variables has been widely used in the estimation of tourism demand models (Lim, 1997 and Song and Li, 2008). The approach of using the lagged dependent variables has varied among the researchers.

Some studies have used the lagged explanatory variables by one or more time increments (Crouch, 1994a) and some studies have used a polynomial distributed lag structure. The lagged dependent variable has been included in the tourism demand model estimation to capture the habit persistence and word of mouth effect. This variable is included to explain the willingness of the tourists to visit again the tourist destination. Besides, this variable also explains the extent to which tourists get satisfied with their previous visits, as a result of the services provided to them by the hotels, restaurants, transportation and other agents related with the tourism services (Witt and Witt, 1995). The authors (Witt and Witt, 1995) further highlighted that there is less uncertainty concerned with visiting a country that we are already familiar with as compared to visiting a country that we have never seen before. The knowledge of the holiday places spread as tourists discuss and show the photographs of the places they have visited and therefore reduce the uncertainty concerned with the potential visitors (Witt and Witt, 1995). Therefore it is very important to include the lagged dependent variable as one of the explanatory variables otherwise; this will result in the over-identification of the variables to be estimated.

Existing literature also witnessed that there exists a positive and strong relationship between trade and tourism development. Chaisumpunsakul and Pholphirul (2018) while estimating the tourism demand in Thailand and its trading partners highlighted that international trade increases international tourist arrivals by reducing transaction costs and therefore promotes tourism. The authors found that international trade and the import value between Thailand and the trading partners has positive and significant influence on the tourist arrivals of Thailand, which is relatively higher in the long-run as compared to

short-run. International trade helps in the advertisement of the products which in turn attracts the attention of the consumers both for the commodity as well as for the country of origin and motivates the people of trading partners to visit the country of its production (Kulendran and Wilson, 2000). Santana-Gallego *et al.* (2016) showed that tourism reduces both the fixed and the variable trade costs between the destination and the tourist origin countries. In addition to that by making visits to a country, people can get more information about the prevailing market conditions of the destination country. Besides, the author revealed that tourism has a positive impact on infrastructural development (like the construction of railways, airports, etc.) of the destination country which in turn can result in the development of trade relations between the countries.

Transportation cost plays an important role as a determinant of tourism demand. But there is not too much literature available on the transportation cost and tourism demand. Uysal and Crompton (1984) and Salleh *et al.* (2007) found that transportation costs have played an important role in making travel and tourism-related decisions. An increase in transportation costs leads to decrease in tourist flows. Some studies have used travelling costs as a proxy for transportation costs while some have used distance as a proxy. Garin-Munoz (2006) has used crude oil prices as a proxy for transportation costs. Kosnan *et al.* (2013) in their study found that distance has a negative and significant influence on tourist arrivals i.e., greater the distance between two countries less will be the number of tourist arrivals as well as tourism revenue. Similarly, Culiuc (2014) argued that distance has negative impact on tourist arrivals and has the elasticity similar to that of merchandise flows. Deluna and Jeon (2011) while identifying the various determinants of

tourism demand in Philippines confirmed the same findings. The authors found that 1% increase in distance will reduce tourist arrivals by 0.38%. Martin and Witt (1988) pointed out that the transportation cost of the substitute destinations has an important contribution in the selection of the destination country. Likewise, Presideux (2000) examined the role of transportation cost on tourism demand. Their findings revealed that distance leads to an increase in the transportation cost of the visitors and therefore becomes an important determinant of demand for tourism.

Another strand of available literature has analyzed the role of factors like political instability, crime, terrorism, etc. on the international tourism demand (Yap and Saha, 2013; Henderson, 2011; Mehmood *et al.*, 2016). Balli *et al.* (2016) while analyzing the impact of immigration and institutional quality on bilateral tourist flows employed Corruption Perception Index, obtained from Transparency International as a proxy of institutional quality. The data obtained from Transparency International is based on a scale attaching the values from 0 to 100, where 0 represents the highest level of corruption and 100 indicates absence of corruption. Data on civil liberty and freedom of expression or belief and government functioning (political liberty) obtained from Freedom House was also used. Their findings revealed that these factors have played a positive and significant impact on tourism demand all over the world with Africa and Europe being the exception. Similarly the impact of the activities like war and conflict on the tourism demand is obvious from the fact that tourists refrain from visiting the countries like Syria, Palestine, Israel, as a result of which the countries have witnessed huge losses over the years (Mehmood *et al.*, 2016). Mehmood *et al.* (2016) while

examining the impact of immigration and crime rate on the tourist arrivals of USA found a two way relationship between crime and tourist arrivals and their findings revealed that increase in tourist arrivals has positive relationship with the criminal activities in the short-run, however negative in long-run. While as crime rate has negative impact on the tourist arrivals of the country in the long-run and positive in the short-run. Henderson (2011) in his study points out that a combination of factors like political instability, uprising, corruption, and inadequate government planning and program execution has undermined the international tourism competitiveness in the Philippines.

Yap and Saha (2013) in their study also found that all the political risk variables (internal conflict, external conflict, corruption, military in politics, religion in politics, ethnic tensions and terrorism) have negative influence on tourist flows. They also pointed out that political instability has negative influence on tourist arrivals. Further the authors highlighted that high level of corruption reduces tourist arrivals of the country; however, sometimes the effect of corruption on tourist arrivals becomes positive because the tourists can bribe the government officials to access the sites which are not, otherwise. Tsounta (2008) found that tourism demand in the Eastern Caribbean Currency Union (ECCU) is strongly affected by economic developments in source countries, foreign direct investment (FDI), price level, number of airlines servicing in the destination countries. The study further highlighted that external shocks like hurricanes and wars have a strong association with tourist inflows in ECCU countries.

To sum up, the researchers have tried to analyse the importance of different determinants of tourism demand in diversified countries and different time periods. The existing literature reveals that the impact of income, previous visits, trade and the proxies of institutional quality seems to have positive impact on tourism demand. Majority of these studies are country specific, analysing the impact of trade openness and corruption along with the other main determinants of tourism demand, and have not been reported from India. This study will attempt and fill this existing gap in literature by utilizing the relevant available data.

3.4: Data and Methodology

The present study tries to empirically examine the impact of various determinants on tourism demand of India. Income, price, trade openness and corruption were identified as important determinants of international tourist inflow to India. This present work is in accordance with the studies of Dogru *et al.* (2017), Balli *et al.* (2016) and Garin-Munoz (2006). A panel dataset of India's tourist arrivals from top 27 tourist originating countries along with the data of important determinants has been used in empirical estimation. The panel data models are advantageous because such data is more informative with less collinearity among the economic variables and with more degrees of freedom and more efficiency (Balgati, 2008).

3.4.1: Data Sources and Variables

In order to fulfill the specified objective the data on required variables has been collected from different sources. The annual Number of International Tourist Arrivals (TA) to

India has been used as a proxy for measuring international tourism demand. The annual number of tourist arrivals to India from top most 27 tourist originating countries constitute about more than 80% of the total tourist arrivals for the time period from year 1995 to 2016. The country specific data on international tourist arrivals to India has been obtained from World Tourism Organization (2018). Income is an important factor for any demand estimation exercise. The data on Per Capita Gross Domestic Product (at constant USD prices) has been used as a proxy for income of these tourist originating countries and was obtained from the World Development Indicators^{xi} database from the year 1995 to 2016. The Consumer price index (CPI) has been used as a proxy for tourism prices and measures the price level of a basket of goods and services. The data on the country specific consumer price index from year 1995 to 2016 was also obtained from World Development indicators database. Some studies have used relative price as a proxy for tourism price in the destination country which is calculated on the basis of consumer price index (Martin and Witt, 1988; Martins *et al.*, 2017; Lim, 2004). The relative price can be calculated as:

$$\text{Relative price} = \frac{\text{CPI of destination country}}{\text{CPI of origin country}} \dots \dots \dots (I)$$

Dogru *et al.* (2017) suggests that using relative price as a proxy for prices may be misleading because mere relative prices can't reflect about the level of tourism prices. Additionally, relative prices only take into consideration the relative changes in the prices of countries and do not account for the impact of changes in the exchange rate on the

relative prices of the countries. Therefore, to avoid this limitation, the relative price index has been standardized by the bilateral exchange rate following Dogru *et al.* (2017).

$$RPEX = \frac{CPI \text{ of destination country}_t}{CPI \text{ of origin country}_t * ER_t} \dots \dots \dots (II)$$

Where, RPEX denotes the relative prices standardised by the exchange rate, and ER represents the bilateral exchange rate (in USD) between the destination and the tourist origin country. The data on the bilateral exchange rate has been extracted from the World Development Indicators database.

Adding, trade openness or trade volume among the determinants of international tourism demand may be fruitful particularly for the countries like India where it is one of the important sectors of the economy. Therefore, following Phakdisoth and Kim (2007) and Leiteo (2010) the trade value between India and the tourist origin countries has been calculated by:

$$TRV_{ij(t)} = (X_{ij(t)} + M_{ij(t)}) / (GDP_{j(t)} + GDP_{i(t)}) \dots \dots \dots (III)$$

Where $TRV_{ij(t)}$ represents trade openness between India and the tourist originating country (j) at time, (t), $X_{ij(t)}$ represents the annual exports from India to the tourist originating country (j) at time (t), $M_{ij(t)}$ indicates the annual imports of India from the tourist originating country (j) at time (t). $GDP_{i(t)}$ represents the Gross Domestic Product of the destination country (India) at time period (t) and $GDP_{j(t)}$ represents the Gross Domestic Product of the origin country (j) at time period (t). The data on values of annual exports and imports of India (in USD) to different countries has been obtained from

Directions of Trade Statistics^{xii}, International Monetary Fund from year 1995 to 2016. The data on GDP of India and the tourist origin countries (in USD) has been obtained from World Development Indicators database for same time period.

The proxy for corruption level in India over time is measured by the Corruption Perception Index following Balli *et al.* (2016). The corruption perception index ranks the countries by the degree of corruption that is perceived to exist among the public officials and politicians (Balli *et al.*, 2016). Further, the index measures institutional quality in five main areas viz. size of government, legal structure and security of property rights, access to sound money, exchange with foreigners and regulation of capital, labour, and business (Balli *et al.*, 2016) The data on the Corruption Perception Index^{xiii} has been obtained from the transparency international. The corruption perception index takes the value from 0 to 100, where 100 is perceived as the absence of corruption or probity and 0 is perceived as the higher level of corruption. Until 2012, the scale used for this index was 0-10.

To estimate the specified GMM model, a panel dataset of 27 important tourist origin countries for a period of 22 years (1995 to 2016) is used. The use of panel dataset has the advantage of improving the accuracy of the estimates due to the increasing number of degrees of freedom and less multicollinearity as compared to the time series and cross-sectional data and one can also control for the omitted variable bias (Hsiao, 2003). Besides, most of the studies have used either cross-sectional or time-series data to estimate tourism demand. However, panel data which is a combination of both cross-section and time-series data, is more informative, with more degrees of freedom and less

collinearity problems. However, panel data modeling has rarely been used in the field of tourism demand estimation, with few exceptions (Naude and Saayman, 2005; Dogru *et al.*, 2017).

3.4.2: Econometric Model Specifications and Methodology

Following Dogru *et al.* (2017), Balli *et al.* (2016) and Garin-Munoz (2006), the econometric model adopted for estimating the international tourism demand for India is specified as:

$$\begin{aligned} \ln TA_{ji(t)} = & \beta_0 + \beta_1 \ln TA_{ji(t-1)} + \beta_2 \ln GDPPC_{j(t)} + \beta_3 \ln RPEX_{ji(t)} + \beta_4 \ln TRV_{ji(t)} \\ & + \beta_5 \ln CPI_{i(t)} + \varepsilon_t \dots \dots \dots (IV) \end{aligned}$$

Where,

$\ln TA_{ji(t)}$: is the log of annual number of tourist arrivals from the country of origin (j) to destination country India (i) at time period (t).

$\ln TA_{ji(t-1)}$: is the log of annual number of tourist arrivals at time period t-1.

$\ln GDPPC_{j(t)}$: is the log of the GDP Per Capita of the tourist originating country at time period (t).

$\ln RPEX_{ji(t)}$: is the log of the relative prices between the tourist destination and tourist origin country standardised by the bilateral exchange rate at time period (t) and is used as a proxy for price.

$\ln TRV_{ji(t)}$: it is the log of trade volume or trade openness between the tourist destination and tourist origin country at time period t .

$\ln CPI_{j(t)}$: it is the log of the Corruption Perception Index used as a proxy for corruption level present in the destination country (India) at time period t .

β_0 : is the intercept term

$\beta_1, \beta_2, \dots, \beta_5$ are the slope coefficients to be estimated

ε_t : is the disturbance (error) term.

Literature estimating tourism demand highlights that the lagged dependent variable is one of the most important determinants of tourist demand. It reflects that the word of mouth or habit persistence plays an important role in choosing a tourist destination country (Song *et al.*, 2003; Martin and Witt, 1987). Accordingly, the lagged dependent variable has been included as one of the independent variables of the tourism demand estimation. However, due to the presence of endogeneity in the model, both the within-group (WG) and random effect estimators will produce biased and inconsistent results, even if the rest of all the explanatory variables are assumed to be strictly exogenous (Balgati, 1995). Further, the random effect estimates assume the models to be time-invariant which means that the error term at any period is uncorrelated with the past, present or future that is strictly exogenous (Arellano, 2003). Similarly, the fixed-effect models produce biased estimates when some of the regressors are endogenous and are correlated with the error term (Campos and Kinoshita, 2008).

Researchers have used a variety of empirical techniques to analyze the tourism demand (Crouch, 1994b; Witt and Witt, 1995; Lim, 1997). Until 1980s, most of the studies have employed the Ordinary Least Square method to estimate tourism demand. But if we are dealing with non-stationary data (or a combination of both stationary and non-stationary data) and the error term doesn't fulfill the basic assumptions of the Classical Linear Regression Model, it may lead to invalid regression estimation (Salleh *et al.*, 2007). In other words, if the probability of the data changes over time, then the Gauss-Markow assumptions of the Ordinary Least Square would be violated, that may lead to invalid regression analysis. In the field of tourism literature, the issue of stationarity has been ignored by many researchers, and therefore the estimations arrived at, may be misleading (Phillips, 1986). Recently dynamic and advanced econometric techniques have been proposed and employed by the researchers to avoid the spurious regression problems (Lim and Mcleer, 2001; Phakdisoth and Kim, 2007; Garin-Munoz, 2006 and Shen *et al.*, 2011).

To capture dynamic nature among the economic variables, difference-Generalised Method of Moments (GMM) estimators proposed by Arellano and Bond (1991) has been employed following Garin-Munoz (2006), Phakdisoth and Kim (2007) and Balli *et al.* (2016). This model besides helping to capture dynamism among the economic variables, will also automatically capture the problem of endogeneity among the economic variables, therefore solves the problems of spurious regression and serial correlation. The GMM-difference estimators are employed to produce consistent estimators of the coefficients by using lagged values of the dependent variable and explanatory variables

as valid instruments (Detotto *et al.*, 2021). Moreover, the GMM-difference estimators work well when the number of cross sections (N) is greater as compared to the number of time periods (T), (Roodman, 2006) as is in the present case. In these estimators, a vital assumption underlying the estimation process is that there should not be presence of any second order autocorrelation (AB(2)) in the residuals from the first difference (Cameron and Trivedi, 2009). The study first employs the robust one-step GMM estimation method that produces consistent estimators even in presence of heteroscedasticity, however the estimators are no longer consistent if there is presence of serial correlation in the error term. So far as the one step robust estimators are concerned the error term allows the presence of heteroscedasticity. Therefore the study for more efficient estimation employs the robust two-step bias corrected (WC) GMM-estimators proposed by Windmeijer (2005). The dynamic GMM model to be estimated is specified as:

$$\begin{aligned} \Delta \ln TA_{ji(t)} = & \beta_1 \Delta \ln TA_{ji(t-1)} + \beta_2 \Delta \ln GDP_{j(t)} + \beta_3 \Delta \ln RPEX_{ji(t)} + \beta_4 \Delta \ln TRV_{ji(t)} \\ & + \beta_5 \Delta \ln CPI_{i(t)} + \Delta \varepsilon_t \dots \dots \dots (V) \end{aligned}$$

Where, $\Delta \ln TA_{ji} = \ln TA_{ji,t} - \ln TA_{ji(t-1)}$

One of the important advantages of the Arellano Bond difference-estimator is that unobserved country specific effects (β_0) get eliminated. Additionally, by differencing the data, the problem of non-stationary gets removed. Therefore, the method provides robustness in the estimated coefficients and standard errors.

3.5: Empirical Results

Before analyzing the panel data using specified model, various statistical tests were carried out to check the nature of data and its suitability for analysis. To avoid the problem of spurious regression, unit root process has been checked by using IPS test developed by Im, Pesaran and Shin (2003) and ADF test developed by Maddala and Wu (1999). These tests assume unit root process with null hypothesis that variables contain unit root process at the level. The Table No. 3.1 presents the results of unit root tests of different variables used for the analysis:

Table 3.1: Panel Unit Root Test

Test	IPS		ADF	
	Constant	Constant and Trend	Constant	Constant and Trend
lnTA	4.581(1.0000)	-0.728(0.2330)	45.457(0.7895)	62.475(0.2005)
lnGDPPC	1.591(0.9443)	-1.075(0.1412)	73.666(0.0388)	69.475(0.1885)
lnRPEX	3.469(0.9997)	-0.038(0.4847)	32.652(0.9905)	65.985(0.1270)
lnTRV	1.266(0.8973)	2.542(0.9945)	30.905(0.9952)	37.729(0.9547)
lnCPI	7.489(1.0000)	-1.701(0.0444)	4.229(1.0000)	57.401(0.3503)
Δ ln(TA)	-13.986(0.0000)	-10.996(0.0000)	273.966(0.0000)	203.553(0.0000)
Δ ln(GDPPC)	-10.262(0.0000)	-8.9018(0.0000)	206.403(0.0000)	174.613(0.0000)
Δ ln(RPEX)	-7.719(0.0000)	-3.233(0.0006)	154.075(0.0000)	92.722(0.0008)
Δ (lnTRV)	-12.071(0.0000)	-8.271(0.0000)	236.862(0.0000)	163.433(0.0000)
Δ (lnCPI)	-17.298(0.0000)	-13.914(0.0000)	339.241(0.0000)	249.614(0.0000)

Note: here TA, GDPPC, RPEX, TRV and CPI stand for tourist arrivals of India, real gross domestic product per capita, relative prices standardized by the exchange rate, corruption perception index and trade volume respectively. Δ is the first difference operator.

The results from the table reveal that all the variables contain unit root at the level, indicating that the variables are not stationary. Therefore static regression models like OLS will result in spurious regression problem. However, after taking the first difference, all the variables tend to become stationary $I(1)$.

The cointegration relationship among the set of explanatory variables are also analyzed. The cointegration tests indicate whether the variables in question share the same long term equilibrium relationship or not. To examine the cointegration relationship among the set of variables, the Pedroni (1999) and Kao (1999) test statistics were employed. Pedroni cointegration results are reported in Table No. 3.2.

Table 3.2: Pedroni Cointegration Test

Statistic	Constant	Constant and Trend
Panel v -Statistic	-1.533(0.9375)	-0.871(0.8084)
Panel rho-Statistic	2.839 (0.9977)	3.884(0.9999)
Panel PP-Statistic	-1.445(0.0742)	-5.960(0.0000)
Panel ADF-Statistic	-3.697(0.0001)	-6.517(0.0000)
Group rho-Statistic	4.420(1.0000)	5.225(1.0000)
Group PP-Statistic	-4.430(0.0000)	-9.629(0.0000)
Group ADF-Statistic	-5.8421(0.0000)	-8.80(0.0000)
Kao test	-3.933(0.0000)	

Note: the v , rho, PP, ADF statistics are measured using Pedroni, (1999) and the Kao test is measured using Kao, (1999).

The results indicate that the null hypothesis of no cointegration can be rejected both in the constant and trend term models. It indicates that there exists a long-run equilibrium relationship between the international tourist inflow in India and its determinants

(previous visits, income, relative price, corruption and trade openness). In other words, the results signify that these variables share the same long term trend. After analysing cointegration relationship among the variables, the study proceeds to estimate the relationship among the economic variables.

Table 3.3: Dynamic Panel GMM Model Results

Variable	One-step robust GMM	Two-step robust GMM
LnTA(L1)	0.450(0.098)***	0.457(0.095)***
LnGDPPC	1.142(0.165)***	1.113(0.180)***
LnRPEX	0.073(0.051)	0.090(0.062)
LnTRV	0.188(0.040)***	0.180(0.041)***
LnCPI	0.384(0.185)**	0.347(0.187)*
Constant	-4.574(1.396)***	-4.295(1.515)***
AB(2) test p-value	-1.241(0.214)	-1.228(0.219)
Wald-test	730.16 (5)	600.75(5)
No. of observations	540	540
No. of groups	27	27
No. of instruments	25	25

Note: Here *,**and*** represent 10%,5% and 1%level of significance respectively. Standard errors are reported in parentheses. AB (2) is the Arellano and Bond test for the second order correlation. Wald test has been employed in order to test for the joint significance of the independent variables.

Difference-Generalised Method of Moments Model proposed by Arellano and Bond (1991) is used to analyse the various determinants of tourism demand, following Garin-Munoz (2006), Phakdisoth and Kim (2007) and Balli *et al.* (2016). The results of the model are shown in Table No. 3.3. Both One-step robust GMM and Two-step robust

GMM models were estimated. Column second of the table shows the results of the one-step robust GMM estimators and third column represents the robust two-step bias corrected (WC) GMM estimators proposed by Windmeijer (2005). The results reveal that AB(2) is statistically insignificant in both the model specifications signifying that the model is free from the problem of second order serial correlation. Therefore the estimates obtained are consistent and it also improves the validity of the instruments of the model. The robust estimates allow the underlying error term ' ε_t ' of the model to be heteroscedastic, but do not allow for any serial correlation in ' ε_t '. Therefore the Sargan test is not applicable after the robust option is used for the standard error because the test then becomes invalid (Garin-Munoz, 2006). It is only employed in the case of homoscedastic error term where the Sargan test has an asymptotic chi-squared distribution (Arellano and Bond, 1991). The Wald test statistic has also been reported in the Table 3.3. The null hypothesis of the Wald statistic is that all the coefficients of the model are equal to zero except the constant term. The exception of the constant term is mainly on account of the absence of intercept term in the GMM models. The results of the Wald statistic highlight that in both the one-step robust GMM and two-step bias corrected (WC) robust GMM estimator, the null hypothesis of the Wald statistic gets strongly rejected thereby implying that the coefficients of the model are not equal to zero.

The impact of various determinants on international tourist arrivals is also shown in Table No. 3.3. The results of the GMM model indicate that the impact of lagged tourist arrivals has positive and significant influence on the tourism demand of India. It means that the 'word of mouth' or the 'habit persistence' motivates the visitors to visit again this

tourist destination country. Therefore, satisfaction obtained from their previous trips motivates international tourists to visit the Indian subcontinent again and again. This consistency in the tourist behavior is due to the huge tourism potential, cultural and heritage sites, colorful festivals, cultural and regional diversities of the country. This may be on account of the services of higher quality that they have experienced in their previous visits to India. This develops a sense of satisfaction among the tourists that they have made the best use of their resources. The results of the present chapter are in conformity with Witt and Witt (1995) who also hold that there is less uncertainty in visiting a country that has been visited previously as compared to visiting an unfamiliar tourist destination. This implies that the experiences of the services provided by the host country and the familiarity of the tourist places influence the future tourism decisions of the potential international tourists of India.

Income of the tourist origin country measured by GDPPC has also positive and significant impact on tourist arrivals to India. This highlights that economic wellbeing of the tourist originating countries is important for attracting the tourist inflows towards India. So tourism being a consumer good, its demand increases with the increase in income of the people. The positive impact of Income on tourist arrivals is consistent with findings of Balli *et al.* (2016); Dogru *et al.* (2017) and Khadaroo and Seetanah (2008). The impact of the tourism price on tourist arrivals turned out to be positive but statistically insignificant. This result is in consensus with Naude and Saayman (2005) and Eilat and Einav (2004) who also found that the tourist arrivals were insensitive to the changes in the prices. The variable representing tourism price by relative prices

standardised by exchange rate (RPEX) has violated the law of demand, as sign of its coefficient was expected to be negative (Crouch, 1996). As per the economic theory, positive price elasticity is an indication of either a Veblen (luxurious-good) or a giffen (inferior) good depending on the income effect of the demand model to be estimated (Dogru *et al.*, 2017). While estimating the tourism demand in India by employing the GMM-diff estimation method, the coefficient of income is greater than one in both versions of the model suggesting that demand for tourism in India is a luxury good.

Trade openness is found to have positive and significant influence on the tourist arrivals of India. The results are in consensus with the findings of Phakdisoth and Kim (2007), Chaisumpunsakul and Pholphirul (2018), Habibi *et al.* (2009), Kulendran and Wilson (2000) and Leitao (2010) who found that the trading ties between countries positively affect their tourism. Trade ties among the countries helps in developing familiarity and knowledge regarding each other which in turn provides impetus to their tourism. Majority of the top tourist origin countries of India are the ones with whom India has large magnitude of trade share. Trade volume also reduces the transportation cost among the trading partners due to the scheduling of usual transportation avenues among these countries, thereby increasing the tourist flows. In addition to that, trade openness reduces the cultural differences between different countries of the world and therefore, motivates the people to visit each other's country (Chasapopoulos *et al.*, 2014).

The impact of Corruption Perception Index on tourist arrivals turned out to be positive and significant. The coefficient of this variable shows that one percent increase in level of

Corruption Perception Index will increase international tourist inflow by 0.38 and 0.34 percent in the one-step and two-step model specifications respectively. Additionally the magnitude of this coefficient is found to be greater than the relative magnitude of both trade volume and relative prices, thereby signifying its relative importance in explaining demand for tourism in India. It reveals that tourists being rational economic agents always try to averse risk associated with failure of institutions. So, before visiting any tourist destination, tourists take into consideration the institutional environment of that country. This seems to be highly important and is usually given the priority while deciding about the venues and places to be visited. The positive impact of Corruption Perception Index on tourist inflows are in consonance with findings of Balli *et al.* (2016), Roxas and Chadee (2013) and Kim *et al.* (2018). This implies that adding the institutional quality variable to the tourism demand estimation, in addition to the traditional factors will increase the explanatory power of the tourism demand models and will also be fruitful to policy makers and for the overall development of the tourism sector of the country.

3.6: Conclusion and Policy Implications

The present study used a dynamic panel data modeling approach to analyze the determinants of international tourism demand in India. To carry out the analysis, a panel dataset of top 27 tourist originating countries of India from year 1995 to 2016 was used. The present study in addition to traditional determinants (income, lagged tourist arrivals and tourism prices) examines the impact of trade openness and corruption level on the tourism demand of India. Difference-GMM model developed by Arellano and Bond

(1991) was used for analysis to capture dynamism and solve the issue of endogeneity among the set of economic variables.

Two versions of robust GMM models (one-step and two-step) were employed. The results from both the versions of the GMM model are in conformity with each other. The lagged tourist arrivals and real per capita income of the tourist originating countries were found to be positively associated with international tourist inflows in India. Therefore, signifying that the economic wellbeing of the tourist originating countries and the previous visits play an important role in attracting tourist arrivals for India. The impact of trade openness was also found to be positive and significant. Therefore, signifying that the trade links among countries also leads to the tourism sector development of those countries. The impact of Corruption Perception Index (where its higher value for India represents lower levels of corruption) on international tourist arrivals of India is positive. It reveals that lower the level of corruption, more will be the tourist inflow.

The findings of the study highlighted that the economic prosperity in the tourist origin countries has spillover effect and determines demand for tourism in India. This implies that as the income of the tourist originating countries increase, they prefer to travel in their leisure time to India. Moreover the study highlighted that trade openness helps countries to improve their tourism demand on account of their strengthened trading relations that develop a sense of trust, knowledge and familiarity among the nations. Therefore in order to improve the tourism demand of India the policy makers should work for strengthening the trading relations of India with different nations of the world.

Numerous trade contracts should be signed with different nations and the country should take active part in different economic alliances formed at the global level. Moreover, the Government of India should make efforts to reduce the corruption level in the country, maintaining law and order conditions, minimizing the bribery and fraudulent actions at all levels of the working institutions of the country. The study holds that the international image (branding) of the country should be perked up by establishing rule of law, efficient government regulation, independent judiciary, legitimate use of power, reduction in illegal and fraudulent activities in the country to attract huge tourist inflow. Social media, advertisements, new movies in India should give priority to highlight that institutional environment of the country is always safeguarded. Besides, the time wasted for completion of different formalities should be minimized as much as possible through efficient regulatory quality. This will ensure a sustained rise in the international tourist inflow towards India.

The business sector engaged with tourism sector should try to ensure high quality services to the visitors, so that they can visit the destination country again and again. The hotel and transport management should focus not only on tangible items (accommodation and other infrastructural facilities) but also on intangible items like (inter personal interactions). Policy makers should organize training programmes at all levels (national, state and regional), particularly for those dealing with this sector (hoteliers, transporters and other service providers) regarding how to make tourists feel satisfied, secure and safe in our country. Moreover, a close vigilance should be kept on all tourism activities (transportation, shopping, entry fee, food etc.) so that the tourists do not face price

discrimination of goods and services used. Additionally, there should be a complaint and suggestion box at all international airports so that the international tourists before leaving the country will mention the problems they have faced during their visit in India. Efforts should be taken at all levels to develop the infrastructural base of a country, and it should be well-organized and conducive from economic and environmental perspectives.

Chapter 4

Impact of Institutional Quality on the International Tourism Demand of India

4.1: Overview

The institutional quality and level of human development of the host country are assumed to have significant influence on the decision of international tourists to visit that country. The international demand for tourism may be responsive to the institutional quality factors like political stability, corruption level, violence, bureaucratic quality and rule of law present in a country. Policy makers and practitioners in India need insights about the key institutional quality factors that play prominent role in the determination of international tourism demand. This will help policy makers to devise a comprehensive tourism policy to fully reap the potential benefits of tourism sector. The objective of the present chapter is to empirically analyse the impact of institutional quality and human development on India's international tourism demand.

This chapter is divided into various sections. Section 4.2 provides a brief introduction as prelude to the empirical analysis and section 4.3 discusses review of literature. The section 4.4 throws light on the data sources and adopted empirical methodology. Results and analysis are discussed in section 4.5. Finally section 4.6 summarizes the conclusions and provides some policy implications.

4.2: Introduction

Travel and tourism being one of the key drivers of economic growth has ensured much social and economic importance due to its huge potential in the creation of jobs, income generation and understanding the cultures and dynasties across the world (Archer and Fletcher, 1996 and Blake and Sinclair, 2007). The contribution of tourism sector to the world's Gross Domestic Product (GDP) in the year 2018 was around 10.4%, created 319 million jobs, accounted for about 27.2% of total global service exports and 6.5% of total global exports (WTTC report, 2019). However, the positive impact of tourism on the economic wellbeing of a nation to a large extent depends upon the nature of the tourism product of a particular tourist location (Biagi *et al.*, 2017).

India is well known for its rich, historical and cultural heritage with international recognition (Ranga and Pradhan, 2014). Besides, diverse lifestyles, traditions, cultural and religious fairs and festivals the prolific treatment to its visitors is an important source of attraction for world tourists. The popular tourist destinations of the country include Kashmir, Kerala, Darjeeling, Goa, Shimla etc. (Jaswal, 2014). India has enormous tourism potential but the percentage share of India in terms of foreign tourist arrivals at the global level is less and ranks at 26th position (MOT, GOI report, 2018). This may be on account of different reasons but one prominent among them is lack of institutional quality in India.

Institutional quality refers to the quality of set of institutions that govern laws, constitution, government, property rights, traditions etc. that are required for the interpersonal relationship among the people in a country. Chong and Calderon (2000)

held that “institutions are the implicit and the explicit rules by which the members of society interact, shape the behavior of different agents and help explain the economic performance of countries”. The institutions of the country act as vehicles to ensure an efficient and effective delivery of public services (Kumar, 2005). However, institutional quality in India has been eroding which has resulted in ineffectiveness, lack of motivation and lack of accountability in the delivery system of public services. Therefore, deterioration of institutions in the form of on-going violent acts, corruption, communalism, political issues, weak implementation of laws and violation of law and order poses threat to the overall development of the country in general and tourism sector in particular. This is evident from the fact reported by Chaturvedi (2019, December 25) in The Economic Times that the continuous protests due to the implementation of Citizenship Amendment Act (CAA), in 2019 have created a negative perception in the minds of international tourists. This has resulted in the cancellation and postponement of the scheduled tourist trips to India. Jaiswal (2019, December 30) also highlighted in The Times of India that there has been a decline of 36% in tourist visits to the most popular monument-Taj Mahal after the CAA amendment protests in Uttar Pradesh during December 2019.

The image or branding of a tourist destination which is a subcomponent of institutional quality plays an important role in attracting tourists to a particular destination. As pointed out by Ferreira and Harmse (2000), ‘one of the most preconditions for the successful tourism industry is to ensure the safety of tourists and keeping crime under control’. However, Sarkar (1997) mentioned that the image of India as a tourist destination at

global level reflects political instability, terrorism and lack of communal harmony. The criminal activities against tourists are a serious threat and undermine tourist inflow of the country. The National Crime Report Bureau (NCRB, 2018) highlighted that 528 persons were arrested in India for committing crimes against foreign tourists and other foreigners. On similar lines Nigam (2019, November 17) reported in India Today that Delhi accounts for one-third of criminal cases in India related to foreigners.

With this background, the present study tried to analyse the link between institutional quality and international tourism demand with reference to India. Therefore, the present study has gone a step forward to the neo-classical theory where income and price are considered as the two key determinants influencing tourism demand. There is enormous tourism literature available in India, however, more pronounced towards analyzing the importance of tourism in growth and employment generation (Mishra *et al.*, 2011; Georgantopoulos, 2013 and Kaur and Sarin, 2016). Only few studies have focused on analyzing the determinants of tourism demand in India (Nair and Ramachandran, 2016). However, these studies have mainly examined the traditional determinants of tourism demand with few exceptions (Gupta and Singh, 2015; Dhariwal, 2005 and Parida *et al.*, 2017). The present study comprehensively examines the impact of composite index of institutional quality on international tourism demand which has been ignored in general and particularly in Indian context. Besides, the study analyses the individual impact of each of the component of institutional quality on the international tourism demand of the country. By doing so, the study adds to the already existing literature on the tourism demand analysis.

4.3: Review of Literature

The academic literature on tourism economics is diversified covering varied issues in different contexts. Most of the studies have analysed the factors that significantly contribute in influencing the international tourist inflows of a country (Lim, 1997; Naude and Saayman, 2005; Garin-Munoz, 2006; Deluna and Jeon, 2014; Dogru *et al.*, 2017). However, majority of these studies have focused on the traditional determinants of demand for tourism like: income, tourism prices, exchange rates, transportation costs and previous visits etc. The income of the tourist originating countries and differences in price levels between the countries have been widely used as determinants of tourism demand in the existing literature. GDP of tourist origin countries has been widely used as proxy for the level of income of tourist origin countries (Martins *et al.*, 2017). Most of the studies estimating tourism demand have found that tourism is a luxurious-good and tourists are much more sensitive to changes in the levels of income thus implying that income of the tourist origin country is an essential factor of international tourism demand (Salleh *et al.*, 2007; Garin-Munoz, 2006; Gokovali *et al.*, 2007; Kulendran, 1996; Ferro Luzzi and Fluckiger, 2003; Eilat and Einav, 2004; Balli *et al.*, 2016). However, contradictorily few studies found that tourism demand is not much sensitive to the level of income of the tourist origin countries (Naude and Saayman, 2005; Culiuc, 2014).

Similarly, the impact of price level present in a particular tourist destination country has been widely incorporated in tourism demand estimation studies. Researchers have used different proxies to analyze the impact of prices on tourist demand. Salleh *et al.* (2007),

Uysal and Crompton (1984) and Martins *et al.* (2017) among others found that prices play an important role in determining the tourism demand of a country. As against this, Naude and Saayman (2005) and Deluna and Jeon (2014) found that tourism prices of the destination country does not hold a significant place in the analysis of tourism demand of a country. Number of studies (Lim, 1997; Song and Li, 2008; Witt and Witt, 1995; Crouch, 1994a) examined the role played by the lagged dependent variable i.e. tourist arrival with one year lag (TA(-1)) to examine whether the tourists got satisfied with the services enjoyed at the destination country in their previous visits. Witt and Witt (1995) hold that tourists prefer to visit the place with which they are already familiar as compared to visiting a place they have never visited before. Additionally, some researchers Parasuraman *et al.* (1988) and Kandampully (2007) brought into light the service quality of the destination country as an essential determinant of tourism demand.

The theory of demand for tourism has been extended over time by incorporating many other influencing factors in it (Wu *et al.* 2017). Santana-Gallego *et al.* (2016), Kulendran and Wilson (2000) and Chaisumpunsakul and Pholphirul (2018) while examining the impact of trade openness on international tourism demand found a strong positive association between the two. Biagi *et al.* (2017) analysed the impact of tourism on Human Development Index (HDI) and found that the impact of tourism on HDI is positive up to a threshold limit but beyond this limit, tourism development produces negative externalities on the human development of a country. Kim *et al.* (2018) pointed out that an increase in socio-economic development level (proxied by HDI) ensures increase in international tourist inflows for that country.

The literature on tourism demand estimation has mainly focused on its traditional determinants but like any other business activity, tourism sector is highly sensitive to the institutional environment of the destination country. Therefore, when a country experiences stable political order, rule of law, it attracts more and more foreign tourist inflows. Accordingly, during the last two decades, researchers in addition to the traditional determinants of tourism demand have also investigated the role played by the institutional quality factors like political instability, regulatory quality, rule of law and corruption level in determining the tourism demand of countries (Balli *et al.*, 2017; Yap and Saha, 2013; Henderson, 2011; Naude and Saayman 2005; Roxas and Chadee 2013; Kim *et al.* 2018). Roxas and Chadee (2013) found that the institutional quality factors like government policies, regulatory quality, rule of law and business support have positive impact on the entrepreneur orientation of a country which leads to higher level of entrepreneurship and innovation, therefore resulting in better performance of the tourism sector particularly in case of developing countries. Balli *et al.* (2016) while analyzing the impact of immigration and institutional quality on the bilateral tourist flows employed Corruption Perception Index obtained from transparency international. The study found that the institutional environment of a country has positive and significant impact on its international tourist arrivals. Usman *et al.* (2019) revealed that tourism development and institutional quality play a positive and significant role in the output growth of European Union (EU-28) countries. Besides, institutional quality factors play a considerable role in improving the environmental performance of these countries. Ghalia *et al.* (2019) also highlighted that better institutional environment along with lower risk of conflict

promotes increase in international tourist flows. Furthermore, the study highlights that the success of the tourism sector is significantly determined by minimising the political risk as much as possible and improving the quality of public institutions and other related public bodies. A group of studies highlighted other dimensions of institutional quality that influence tourism and development. Sinha *et al.* (2019) and Yasmeeen *et al.* (2019a) found that the presence of institutional quality in a country play a decisive role in ensuring environmental sustainability. Environmental performance and sustainability in turn improves the tourism development among the nations (Usman *et al.*, 2019). Sun *et al.* (2019) examined the impact of institutional environment on urban economic growth and Qiang and Jian (2020) on resource management of economies. Qiang and Jian (2020) suggested that the lack of sound institutional mechanism is not only hampering the economic development but also acts as an obstacle in the structural transformation of these regions. Moreover, this also leads to increase in the risk of “resource curse” among the resource rich regions.

Similarly, Kim *et al.* (2018) also tried to analyse the impact of national institutional quality on the tourism demand of countries. The authors used the data related to institutional quality from Worldwide Governance Indicators (WGI). The data provided by WGI is reliable measurement of institutional quality (Quibria, 2006 and Kaufmann, 2004). The WGI provides data on six institutional quality factors which are voice and accountability, political stability and absence of violence, government effectiveness, rule of law, regulatory quality and control of corruption. The scale of all these institutional quality factors ranges from -2.5 to 2.5, where -2.5 represent the lowest institutional

quality and 2.5 represents the highest institutional quality. However, the authors employed only three institutional quality factors (GE, RQ and RL) by constructing a composite index of institutional quality with a scale ranging from -7.5 (signifies lowest quality) to 7.5 (signifies highest quality). Further, the study also analysed the role played by individual components of institutional quality on tourism development. Additionally, to check robustness of the results, alternative measures of the institutional quality like International Country Risk Guide (ICRG) bureaucratic quality (scale ranges from 0-4) and law and order (scale ranges from 0-6) were also used. In another specification, Human Development Index (HDI) has been employed as a substitute measure for economic development to check for the robustness of the results. The results indicated that the institutional quality has positive and significant impact both on the tourist arrivals as well as on the tourism receipts of the destination country. Similarly, the results indicated that the individual components of institutional quality exhibit a positive and significant impact on the tourist inflows of the countries. Among the three selected individual components of institutional quality, it is rule of law that is highly important in attracting foreign tourist inflows. Similarly, Human Development index turned out to be positive and significant in both the models and did not alter the impact of institutional quality in any way. Detotto *et al.* (2021) employed a dynamic panel approach for a dataset of 100 countries for a period of 2002-2012. The variable World Governance Index (WGI) was employed as a proxy for good governance. The authors in their study employed the synthetic measure in one specification in order to find out the impact of government performance on the tourist arrivals of the country. This measure was

constructed by averaging the six individual worldwide governance indices for each country for each year. The study found that countries with a lower level of governance indices also experience the lowest levels of tourist inflow, implying that there exists a positive relationship between the tourist inflow of a country and its governance quality. Then in another model, the impact of all these dimensions of governance was individually analyzed to find the individual impact of all these variables on a country's tourist inflow. All the six indicators have positive relationship with the tourist inflow however the impact of government effectiveness was much stronger.

Similarly, many authors have analysed the impact of political instability on the tourism demand of destination countries. Henderson (2011) found that the main reason behind the poor performance of the tourism sector in Philippines is linked to the country's history of political instability. The author suggested that the institutional policies of the country should be improved to make the best use of the country's tourism assets for achieving the development that is sustainable. Yap and Saha (2013) while analyzing the influence of political instability, terrorism and corruption on tourism demand for 139 countries over the time period of 1999-2009 found that individually all the institutional quality factors as well as composite indices have negative impact both on tourist arrivals as well as tourism revenue. The individual components of political instability like internal conflict, external conflict, military in politics and ethnic tensions play a major role in reducing both the tourism revenue as well as tourist arrivals. So far as the variable of corruption is concerned, their results were in consensus with the studies of Lau and Hazari (2011) and Das and Dirienzo (2010), where the coefficient of corruption level turned out to be

negative and significant. However, for the countries characterised of rich historical and natural heritage reverse was the case. Similarly Neumayer (2004) in order to analyze the impact of different forms of political violence on tourism employed two techniques; Fixed Panel estimation with contemporaneous effects only and dynamic Generalised Method of Moment estimators. The author concluded that political violence affects tourist arrivals with a lag. Moreover, the results suggested that in the long run, autocratic regimes are less attractive as compared to democratic regimes because of the restrictions imposed on the free movement of tourists, entertainment opportunities etc. Eilat and Einav (2004) found that the political risk associated with the destination country has a significant impact (both for developed as well as developing countries) on the tourist arrivals of the country. Mushtaq and Zaman (2014) in their study analyzed the relationship between political instability, terrorism and tourism of the South Asian Association of Regional Countries (SAARC). The authors found that the impact of international terrorism for a particular tourist destination in the region was positive and highly significant. Surprisingly, the coefficient of political instability was negative and highly significant and revealed that 1% increase in political instability reduces the tourist inflows by 77.9% in the countries of the region.

Bhattarai *et al.* (2005) pointed out that the Maoist war and the presence of political turmoil in Nepal have declined the tourist inflow in Nepal. Although the country is endowed with many natural resources and is famous for adventure tourism and religious tourism, but the tourism development in Nepal has shattered due to prevailing crisis of political authority resulting from the conflict among monarchy, political parties, and

Maoist revolutionaries. The country has witnessed violence, civil conflict and political turmoil resulting from the severe crisis of political authority, due to which the tourism industry has suffered a lot. Fletcher and Morakabati (2008) in their study analyzed the impact of terrorism and political unrest on the tourism industry of Kenya and Fiji (both being the parts of Commonwealth). The study found that following the 1987 elections in Fiji, there was a severe political turmoil that had serious repercussions on the economy of Fiji. Additionally, the political coup of 1987 resulted in only 10% of the hotel occupancy of the normally expected, and the tourism receipts declined by the huge amount of F\$36.6 million in that one year alone. The economy was not able to cope with the losses in their tourism receipts even after that year. In year 2002 there was again political turmoil, which resulted in deterioration of law and order, even Fiji lost its membership from Commonwealth (later it was re-admitted). This implies that the political violence affects the global reputation of a country. After political turmoil of year 2000, the tourist arrivals of the country fell by 28% while the foreign tourism receipts fell by 35% over the previous year. Similarly, Kenya is also very famous for its natural attractions and beautiful isolated beaches. The terrorist attack of 1998 that targeted the US embassy in Kenya killed nearly 219 persons. Similarly, the attack on tourists by terrorists in November 2002 killed about 15 persons. This negatively impacted both the tourist arrivals as well as the tourism receipts in the country. However, there was a quick recovery in both the tourist arrivals as well as the tourism receipts in 2004. Further, Hall and Sullivan (1996) and Neumayer (2004) pointed out in their studies that military takeover and other military activities can cause discomfort to the travellers by causing

damage to tourism infrastructure. Likewise Hai and Chik (2011) argued that the main reasons behind the poor performance of the tourism sector in Bangladesh are political instability and insecurity. Its severity can be known from the fact that even the domestic tourists of Bangladesh feel unsafe to travel in Bangladesh. Moreover, the author added that foreign tourists do not prefer to travel to Bangladesh due to the existence of political instability. The political unrest in Bangladesh has affected the tourism sector both directly as well as indirectly. In direct sense, the political unrest creates an impression of lawlessness and violence in the country and indirectly it hampers the economic growth of the country, due to which the development of infrastructure is affected. However, Santana-Gallego *et al.* (2016) in contrast pointed out that the effect of instability lasts for at least one year only and after that the effects are feeble.

The terrorist attacks, criminal activities and corrupt practices present at a particular tourist destination also prove to be big hurdles in the tourism sector development of that country. Santana-Gallego *et al.* (2016) investigated the impact of terrorism, crime and corruption on tourism demand of 171 countries for the period of 1995-2013. The authors concluded that given the purpose of tourism, the impact of crime and terrorism are larger for tourists who travel for personal reasons as compared to those who travel for business purpose. Contrary to this, the impact of corruption is mainly on business trips. This is because the tourist destination can be easily substituted when the trip is arranged for leisure purpose, however, the destination countries can't be easily substituted when the trip is arranged for the purpose of business. Additionally, they found that the incidents of terrorism and crime do not matter much for the countries with rich heritage sites, and

therefore attract tourist inflow even in presence of political instability. This is mainly because the countries with rich heritage sites can't be easily substituted for other countries. The interesting finding of the study was that tourists with a stable environment in their home countries will prefer to visit countries with the same institutional environment. As compared to this, tourists travelling from politically unstable places are tolerant to the corruption level, acts of terrorism and criminal incidents in the destination country. Poprawe (2015) argued that corruption increases the travelling cost for the visitors by incurring the additional costs in the form of paying bribes to get visa on time, to get better service quality in the hotels and sometimes the travellers had to pay to have access to the government restricted places. These corrupt practices affect the image of the destination place and therefore cause uncertainty about the protection and the expenditures incurred by the tourists on the trip. The author found that one unit increase in Corruption Perception Index (implying a decrease in the corruption level) causes the tourist inflow to increase by 2-7%. A simple analogy for this is that the tourists do not want to incur extra expenditures on their trip by paying more due to the prevailing corruption level in the destination country. These results were in consensus with the results of Campos *et al.* (1999), who highlighted that corruption may have the same effects as tax, i.e. the tourists have to incur additional charges to travel to a corrupt tourist destination. Additionally, the tourists who are from countries where corruption is not common, they will refrain from visiting these places. Therefore, tourists will substitute other alternative destinations for travelling with the same characteristics but with a lower level of corruption (Enders *et al.*, 1992).

Similarly, Lau and Hazari (2011) investigated the influence of corruption on tourist arrivals by employing a pooled dataset of 197 countries. The authors found that the corruption level present in any country has negative and significant impact on its tourist arrivals. The results indicated that 1% increase in corruption perception index will increase tourist arrivals by at least 8.6%. Saha and Yap (2015) in their study tried to examine the impact of corruption on the tourism demand for the period 1999-2009 by using panel least square and fixed effect regression. Contradictory to the previous research, the study examined the relationship between corruption and tourism demand in a non-linear framework. Their study confirmed that there exists an inverted u-shaped non-linear relationship between corruption and tourist inflows of a country. This signifies that at lower level of corruption tourist inflow increases, but at higher levels of corruption tourist inflow decreases. The results from the fixed-effect model are in conformity with the results of panel least square showing that there exists a non-linear relationship between corruption and tourist arrivals. In another specification, tourism receipts were employed as a proxy for tourism demand in place of tourist arrivals. The results again highlighted that at a lower level of corruption, tourism revenue increases and at the highest level of corruption, tourism receipts decrease. Demir and Gozgor (2017) in their study tried to find out the relationship between relative corruption level and inbound tourism to Turkey for the period 1996-2014. The study found that the impact of relative corruption levels between the two countries is more crucial as compared to the corruption level present in any country. Therefore the authors suggested that in comparison to other countries, Turkey should take steps to reduce the corruption level to attract more tourists

towards Turkey especially from the countries that are members of the European Union, where the level of corruption is very low. Likewise, Schiebler *et al.* (1996) pointed out that the essential aspect for the tourism competitiveness to a large extent depends upon the safety and security of the destination country, which is determined by the presence of corruption in the police and other administrative services. The fraudulent business practices, poor rule of law implementation, bribery can harm the social and cultural image of the destination country and therefore results in poor competitiveness at the global level (Das and Dirienzo, 2010). Also, political inconsistency as a result of frequent changes in government gives rise to political turmoil due to the rising controversy between the common masses of the nation and the corrupted politicians.

Literature related to tourism demand also suggests that the functioning of the government authorities and the planning approaches adopted by countries also play a prominent role in the tourism sector performance of the destination countries. Tosun and Timothy (2001) highlighted that in most of the developing countries, planning powers are highly centralized and the central agencies resist the efforts to bring about the decentralisation of their functioning. This has resulted in inefficient government systems that are quite disastrous for the overall functioning of an economy. Similarly, due to the centralisation of government powers the tourism sector is usually driven by the decisions of upper government officials and therefore they shape the tourism development for their own benefits rather than overall benefits of the society. Similarly, Tosun and Jenkins (1998) argued that the existing complex socio-economic-political system that shapes the political approach of tourism development has resulted in inappropriate approach towards tourism

development. Therefore countries, particularly developing countries should develop a proper planning method to manage the tourism sector fruitfully. In these countries, a planning approach towards tourism development should be framed at the local level taking into consideration their circumstances. Tosun and Timothy (2001) also suggested that without taking into consideration the institutional and political issues and their potential remedies, the contemporary approaches towards the development of the tourism sector can't be implemented and therefore the potential benefits (social, economic and political) from the tourism sector can't be reaped to its fuller extent. Mckercher and Robbins (1998) highlighted that the tour operators in Australia complained about two problems about the prevailing bureaucratic structure. Firstly, the Australian government keeps on changing its regulations frequently which imposes additional costs for the tourists and also reduces the tourist inflow by restricting the tourist arrivals or by reducing the period of stay in the country. Secondly, government agencies are indulged in corruption and therefore restrict access to tourist places particularly for the areas which are restricted.

As far as India is concerned, there is dearth of economic literature highlighting the impact of institutional quality on the tourism demand. Most of the studies in Indian context have analyzed the impact of tourism on the country's economic development and creation of employment opportunities (Mishra *et al.*, 2011; Ghosh, 2011; Georgantopoulos, 2013 and Ohlan, 2017). The studies analysing the determinants of tourism demand are few in number (Dhariwal, 2005; Ranga and Pradhan, 2014; Parida *et al.*, 2017; Nair and Ramachandran, 2016). However, the impact of political instability, crime rate, terrorist

activities, corruption level among the pool of determinants of tourism demand have not gained much scholarly support with Parida *et al.* (2017) and Dhariwal (2005) being the exceptions. However, these studies have narrowly analyzed the impact of these factors focusing only on the impact of one or two aspects related to institutional quality (like communalism and crime) on the tourism demand of India. Parida *et al.* (2017) while examining the various determinants of foreign and domestic tourist arrivals for a panel of 25 Indian states found that the criminal activities have negative and significant impact on both the foreign as well as domestic tourist arrivals of these states. However, the terror-related activities do not have significant impact on the domestic and foreign tourist arrivals of Indian states. Moreover, the study found that terrorist attacks have deteriorated the global image of the country. However, the impact of terrorist activities lasts for a short period of time and fades away with the passage of time. Chiu and Lin (2011) while examining the risk perception of international tourists in India found that the risk involved with tourism has negative impact on both the willingness of the tourists to visit the destination country as well as on the development level of the tourism industry. The authors pointed out that although the tourists in India have proven to be victims of harassment and fraudulent actions, but the incidence of violent crimes and sexual crimes related to tourists are very less in number. The study further highlighted that the perception of being a victim not only affects the tourist's decisions of visiting the country again but they also suggest their friends and relatives not to visit the country. Dhariwal (2005) also highlighted that the country is not able to reap the potential benefits from the tourism sector because of the prevalence of communalism, terrorist activities and Indo-

Pak tensions. Moreover, the country is not attracting the expected number of tourist arrivals because the image of India reflects weak social services, political instability, terrorism and therefore creates a negative perception of the country particularly in terms of infrastructural and safety concerns (Chaudhary, 2000). The author categorically highlighted that the country being home to rich historical and cultural heritage can benefit more from the sector if the image of the country can be developed as a cultural destination.

To sum up, the existing literature highlights that researchers have mostly focused on the traditional determinants (like income, tourism price, exchange rate, previous visits) of tourism demand. However, emerging strand of literature highlighted the importance of sound institutional mechanism as a determinant of tourism demand. It is being advocated that the success of tourism industry to a large extent depends on the prevailing quality of institutions, political conditions, level of corruption, working of different organs of government, rule of law and the bureaucratic setup etc. The link between institutional quality and demand for tourism needs to be analysed comprehensively and validated across the regions. Against this backdrop, the present chapter has tried to examine the impact of composite index of institutional quality as well as the impact of each of the indicators of institutional quality on the international tourism demand of India. To the best of authors' knowledge none of the studies has comprehensively incorporated the institutional quality, and analyzed its impact on the international tourism demand of India.

4.4: Data and Methodology

The impact of institutional quality on the tourist inflows of the country has been comprehensively analysed. For this, the study first analyses the impact of composite institutional quality index, and then proceeds by evaluating the role of each individual institutional quality component on the tourism demand of the country. The study thoroughly examined, whether the factors like rule of law, voice and accountability, control of corruption, regulatory quality and government effectiveness affect tourism demand. Further the study examines whether the Human Development Indices like educational attainment, standard of living and health conditions (that as such also verify the institutional efficiency) present in the destination country influence its tourism demand.

4.4.1: Data sources and Variables

To analyse the impact of institutional quality on tourism demand panel data from 30 top tourist originating countries of India from year 1995 to 2016 is used. These countries account for more than 85% of the total inflow of international tourists to India. To measure tourism demand, the study uses data on international tourist arrivals of India. The annual data on the international tourist arrivals of India from 1995 to 2016 has been obtained from World Tourism Organisation (2018). Data regarding other explanatory variables like GDP at constant USD prices, relative price levels, trade volume and HDI was obtained from World Development Indicators (WDI)^{xiv} database. Besides, in accordance with Song and Li (2008) and Dogru *et al.* (2017) the lagged value of the

dependent variable has been included among the set of explanatory variables to capture the impact of previous visits known as ‘habit persistence or word-of-mouth effect’.

Following, Phakdisoth and Kim (2007) and Leitaó (2010), trade volume between India and the tourist origin countries is calculated as:

$$TRV_{ij,t} = (X_{ij(t)} + M_{ij(t)}) / (GDP_{j(t)} + GDP_{i(t)}) \dots \dots \dots (I)$$

Where ‘i’ stands for tourist destination country which is India in the present case, ‘j’ stands for tourist originating country; ‘t’ is the time period; $TRV_{ij,t}$ represents the trade volume between India and the tourist originating country at time period (t); $X_{ij(t)}$ represents the annual exports from India to the tourist originating country; $M_{ij(t)}$ represents the annual imports of India from the tourist originating country; $GDP_{i(t)}$ represents the GDP of India and $GDP_{j(t)}$ indicates GDP of the tourist origin country respectively. The data on value of annual exports and imports of India (in USD) has been obtained from Direction of Trade Statistics, International Monetary Fund^{xv}.

The data on various governance indices used as indicators of varied dimensions of institutional quality has been extracted from World Bank’s database on Worldwide Governance Indicators (WGI)^{xvi}. The WGI compiled since 1996 are most reliable measure for institutional quality (Quibria, 2006). Data on five indices of institutional quality namely Voice and Accountability (VA), Government Effectiveness (GE), Regulatory Quality (RQ), Rule of Law (RL) and Control of Corruption (CC) is used. The

scale of these indices ranges from -2.5 to 2.5, where -2.5 reflects weak government performance and 2.5 reflects strong government performance. The Worldwide Governance Indicators provides data for six indices of institutional quality but as a result of some statistical issues in the data, the present chapter has employed only five of them that have been defined by the Worldwide Governance Indicators as follows:

1. Voice and Accountability: *“Reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media”*

2. Government Effectiveness: *“Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies”.*

3. Regulatory Quality: *“Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development”.*

4. Rule of Law: *“Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence”.*

5. Control of Corruption: “Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests”.

Following Detotto *et al.* (2021), in the present chapter a composite index of institutional quality has been constructed by averaging these five institutional quality components (VA, GE, RL, RQ and CC) to analyse the overall impact of institutional quality on the tourist inflow of India. The study then proceeds by analyzing the role played by each individual component of institutional quality on the tourist inflows of the country.

4.4.2: Empirical Specification and Methodology

As mentioned above, the study first constructed a composite index of institutional quality and analysed its impact on tourism demand and then impact of each of the indicators of institutional quality on tourism demand is also examined. The composite index has been constructed by following Kim *et al.* (2018) and Yap and Saha (2013). The empirical specification of the composite index model is given below:

$$TA_{ji,t} = f(TA_{ji,t-1}, GDP_{j,t}, RP_{ij,t}, TRV_{ij,t}, HDI_{i,t}, INS_{i,t}) \dots \dots \dots \dots \dots \dots (II)$$

Where, $TA_{ji,t}$ indicates tourist arrivals of India ‘i’ from tourist originating country ‘j’ at time ‘t’. $GDP_{j,t}$, $RP_{ij,t}$, $TRV_{ij,t}$, $HDI_{i,t}$ and $INS_{i,t}$ refers to Gross Domestic Product of tourist originating countries, relative price levels between India and the tourist originating countries, trade volume between India and the tourist originating countries, HDI value of

Before, analysing the long and short-run coefficients, the cointegration among the set of explanatory variables is examined by using ARDL Wald statistic.

Here, the null hypothesis is that there is no cointegration among the explanatory variables ($H_0 : \alpha_1 = \alpha_2 = \alpha_3 = \alpha_4 = \alpha_5 = \alpha_6$). Alternate hypothesis is the existence of long term equilibrium relationship among the various explanatory variables ($H_1 : \alpha_1 \neq \alpha_2 \neq \alpha_3 \neq \alpha_4 \neq \alpha_5 \neq \alpha_6$). If the value of computed F-statistics of the Wald's statistic is greater than the critical value, then we reject the null hypothesis of no cointegration, implying there is existence of long-run equilibrium relationship among the set of economic variables. However, before doing so, we have to choose the optimal lag length. Akaike Information Criteria (AIC) has been used to choose optimal lag length.

To analyse the long-run and short-run relationship among the set of economic variables, the dynamic Unrestricted Error Correction Model (UECM) is employed. The empirical specification of the model where composite index of institutional quality is used is given below (Model-I now onwards):

$$\begin{aligned}
\Delta \ln TA_{ji,(t)} = & \beta_0 + \sum_{i=1}^p \beta_1 \Delta \ln TA_{ji,(t-1)} + \sum_{i=1}^p \beta_2 \Delta \ln GDP_{j,(t-1)} + \sum_{i=1}^p \beta_3 \Delta \ln RP_{ij,(t-1)} \\
& + \sum_{i=1}^p \beta_4 \Delta \ln TRV_{ij,(t-1)} + \sum_{i=1}^p \beta_5 \Delta HDI_{i,(t)} \\
& + \sum_{i=1}^p \beta_6 \Delta INS_{i,(t)} + \alpha_1 \ln TA_{ji,(t-1)} + \alpha_2 \ln GDP_{j,(t-1)} + \alpha_3 \ln RP_{ij,(t-1)} \\
& + \alpha_4 \ln TRV_{ij,(t-1)} + \alpha_5 HDI_{i,(t-1)} + \alpha_6 INS_{i,(t-1)} \\
& + \varepsilon_t \dots \dots \dots (IV)
\end{aligned}$$

The above equation (iv) consists of two parts; the coefficients from β_1 to β_6 are the short-run coefficients and the coefficients from α_1 to α_6 are long-run coefficients of explanatory variables.

Next, to analyse individually the impact of each of the indicators of institutional quality on tourism demand, the empirical specification is given below (Model-II now onwards):

$$\begin{aligned}
\Delta \ln TA_{ji,(t)} = & \beta_0 + \sum_{i=1}^p \beta_1 \Delta \ln TA_{ji,(t-1)} + \sum_{i=1}^p \beta_2 \Delta \ln GDP_{j,(t-1)} + \sum_{i=1}^p \beta_3 \Delta \ln RP_{ij,(t-1)} \\
& + \sum_{i=1}^p \beta_4 \Delta \ln TRV_{ij,(t-1)} + \sum_{i=1}^p \beta_5 \Delta HDI_{i,(t)} + \sum_{i=1}^p \beta_6 \Delta VA_{i,(t)} \\
& + \sum_{i=1}^p \beta_7 \Delta GE_{i,(t)} + \sum_{i=1}^p \beta_8 \Delta RQ_{i,(t)} + \sum_{i=1}^p \beta_9 \Delta RL_{i,(t)} + \sum_{i=1}^p \beta_{10} \Delta CC_{i,(t)} \\
& + \alpha_1 \ln TA_{ji,(t-1)} + \alpha_2 \ln GDP_{j,(t-1)} + \alpha_3 \ln RP_{ij,(t-1)} + \alpha_4 \ln TRV_{ij,(t-1)} \\
& + \alpha_5 HDI_{i,(t-1)} \\
& + \alpha_6 VA_{i,(t-1)} + \alpha_7 GE_{i,(t-1)} + \alpha_8 RQ_{i,(t-1)} + \alpha_9 RL_{i,(t-1)} + \alpha_{10} CC_{i,(t-1)} \\
& + \varepsilon_t \dots \dots \dots (V)
\end{aligned}$$

In equation IV and V, the first five variables and slope coefficients are the same. The remaining coefficients $\beta_6, \beta_7, \beta_8, \beta_9, \beta_{10}$ are short-run slope coefficients of Voice and Accountability, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption respectively. Similarly, $\alpha_6, \alpha_7, \alpha_8, \alpha_9$ and α_{10} are the long-run slope coefficients of these variables.

4.5: Empirical Results

As a prelude to data analysis exercise, descriptive statistics of various variables used in the models is reported in Table 4.1.

Table 4.1: Descriptive Statistics

Variable	Observations	Mean	Std. Dev.	Min.	Max.
TA	660	128237	194284	699	1380409
GDP (hundred thousands)	660	14600000	2760000	11700	169000000
RP	660	0.978	0.562	0.372	6.78
TRV	660	0.234	0.382	0.001	3.712
HDI	22	0.543	0.055	0.46	0.636
VA	22	0.424	0.03	0.352	0.477
RQ	22	-0.369	0.09	-0.553	0.156
GE	22	-0.689	0.187	-0.205	0.121
RL	22	0.109	0.154	-0.091	0.354
CC	22	-0.394	0.082	-0.536	-0.248

The results reported in Table 4.1 highlight that on average India receives 1,28,237 international tourists annually from year 1995-2016. The lowest and highest number of tourists arrivals during the year 2016 were from Maldives and Bangladesh respectively. The average annual GDP of the selected countries is 14600000 hundred thousands (USD), with the richest country in terms of GDP being USA and poorest is Maldives. As far as relative prices are concerned, on average the relative price in India (0.978) for most of countries is less than the prices in their origin countries. Therefore, most of the tourists find cost of living less in India than their countries of origin. The standard deviation of relative prices is found as 0.562 with least costly to Japan and highest costly with respect to Myanmar. The trade volume which shows the percentage share of imports and exports with respect to the corresponding GDP of India and tourist originating country has an average value of 0.234 and standard deviation of 0.38. Highest trade volume as a

proportion of GDP among the selected countries is found to be with UAE and lowest with Maldives. Interms of level of development as measured by HDI, India's average HDI has been rather low (0.543) with less variation (0.03 standard deviation). However, over the years the HDI value of India has shown a progressive trend and increased from 0.46 in 1995 to 0.636 in 2016.

With reference to institutional quality indicators India has better rating only interms of voice and accountability and rule of law with a mean value of 0.424 and 0.10 respectively. The value of voice and accountability has remained stable with a minimum of 0.35 and a maximum of 0.47. As against, the index of rule of law has shown a slight declining trend. Interms of regulatory quality and control of corruption, India had negative values initially during 1995 to 2005. However, over the years there are signs of progress and the values of both the indicators have improved mildly. Government effectiveness indicator of India has shown a declining trend with drastic fluctuations as indicated by highest value of standard deviation (equal to 0.18) among the various indicators of institutional quality. The mean value of Government effectiveness index for India is rather low and equal to -0.68.

Before estimating the models, unit root test have been conducted to avoid the problem of spurious regression and to ensure that the maximum integrating order of the variables is 2. Therefore, IPS test developed by Im, Pesaran and Shin (2003) and ADF-Fisher test given by Maddala and Wu (1999) have been used. The panel unit root results are shown below in Table 4.2

Table 4.2: Unit Root Test

Test	IPS		ADF-Fisher	
Variable	Constant	Constant And Trend	Constant	Constant And Trend
lnTA	5.0665(1.0000)	-0.7435(0.2286)	46.4797(0.8996)	68.2785(0.2166)
lnGDP	1.8326(0.9666)	0.2418(0.5956)	84.7196(0.0195)	60.0884(0.4725)
lnRP	7.3407(1.0000)	-2.8716(0.0020)	35.8814(0.9943)	103.311(0.0004)
lnTRV	1.1280(0.8704)	2.8329(0.9977)	37.5374(0.9898)	39.5651(0.9808)
HDI	20.9306(1.0000)	0.7324(0.7680)	0.0207(1.0000)	36.8483(0.9920)
INS	-2.6064(0.0046)	-8.8020(0.0000)	71.9777(0.1383)	178.237(0.0000)
VA	-5.1173(0.0000)	-1.6823(0.0462)	110.3310(0.0001)	62.4309(0.3899)
GE	-7.1737(0.0000)	-4.8648(0.0000)	146.687(0.0000)	105.873(0.0002)
RQ	-5.4868(0.0000)	-12.782(0.0000)	116.571(0.0000)	244.795(0.0000)
RL	2.0906(0.9817)	-10.673(0.0000)	24.3361(1.0000)	216.416(0.0000)
CC	-14.9859(0.0000)	-13.168(0.0000)	324.946(0.0000)	268.613(0.0000)
Δ lnTA	-15.3515(0.0000)	-12.231(0.0000)	317.307(0.0000)	237.710(0.0000)
Δ lnGDP	-11.2839(0.0000)	-9.6940(0.0000)	238.504(0.0000)	197.869(0.0000)
Δ lnRP	-7.5789(0.0000)	-5.8856(0.0000)	162.561(0.0000)	129.887(0.0000)
Δ lnTRV	-12.8501(0.0000)	-8.7563(0.0000)	265.447(0.0000)	181.570(0.0000)
Δ HDI	-11.0514(0.0000)	-10.802(0.0000)	223.126(0.0000)	205.748(0.0000)
Δ INS	-15.0359(0.0000)	-11.4030(0.0000)	307.719(0.0000)	216.660(0.0000)
Δ VA	19.5515(0.0000)	-16.504(0.0000)	405.482(0.0000)	312.007(0.0000)
Δ GE	-23.3186(0.0000)	20.0843(0.0000)	486.853(0.0000)	379.758(0.0000)
Δ RQ	-11.6934(0.0000)	-15.527(0.0000)	240.379(0.0000)	293.640(0.0000)
Δ RL	-18.6694(0.0000)	-10.673(0.0000)	386.372(0.0000)	211.207(0.0000)
Δ CC	-9.5922(0.0000)	-6.3744(0.0000)	197.366(0.0000)	123.428(0.0000)

Note: The associated P-values of all the coefficients are in the parenthesis.

The results of IPS test indicate that there is combination of both integrated of order one I(1) or integrated of order zero I(0) variables in both with and without trend models. Among the various economic variables: GDP, relative prices, trade volume, HDI are

found to be integrated of order one whereas the institutional quality composite index and its individual indicators are found to be integrated of order zero. Similar results were also reported by ADF-Fisher test; therefore, validating the use of ARDL approach.

Next, the cointegration relationship among the set of economic variables is examined. Before doing so, the optimal number of lags (p) of the Error Correction Model is chosen by using the Akaike Information Criteria (AIC). The value of AIC indicates that maximum lag of one for both dependent and other explanatory variables provide best empirical estimates. Table 4.3 (for Model-I) shows that the value of the F-statistic is significant at 1% level, thereby, revealing that there exists a long-term equilibrium relationship among tourist arrivals, GDP, relative price levels, trade openness, HDI and set of institutional quality variables. Therefore, these economic variables are found to move up (down) and share the same long-run relationship. Similar results are also found for Model-II in table 4.4. These results provide evidence in favor of presence of long-run equilibrium relationship in both the adopted models.

Table 4.3: Wald's Cointegration Test for Model-I

Test Statistic	Value	Df	Probability
F-statistic	52.5592	(4,475)	0.0000
Chi-square	210.2371	4	0.0000

Table 4.4: Wald's Cointegration Test for Model-II

Test Statistic	Value	Df	Probability
F-statistic	869.814	(8,291)	0.0000
Chi-square	6958.513	8	0.0000

The long-run and short-run coefficients of both the adopted models were estimated. The results of ARDL pooled mean group estimators for model-I (as specified in equation IV) are reported below in Table 4.5.

Table 4.5: Autoregressive Distributed Lag Model Coefficients: Composite Institutional Quality Index (Model-I)

LONG RUN COEFFICIENTS			
Variable	Coefficient	Standard Error	t-statistic
LnGDP	0.306	0.0204	14.9796***
LnRP	-0.0791	0.039	-2.0300**
LnTRV	0.3607	0.0616	5.8528***
HDI	6.4345	0.7605	8.4602***
INS	0.7915	0.3805	2.0797**
SHORT RUN COEFFICIENTS			
COINTEQ (01)	-0.1745	0.0391	-4.4587***
D(lnGDP)	1.4075	0.368	3.8245***
D(lnRP)	-0.0482	0.2227	-0.2168
D(lnTRV)	0.0269	0.0392	0.6866
D(HDI)	9.7542	2.3832	4.0928***
D(INS)	0.2167	0.1607	1.3478

Note: 'D' represents short-run coefficient *, **and*** represents level of significance at 10%, 5% and 1% respectively.

The results from Table 4.5 indicate that the impact of GDP of tourist originating countries is positively associated with international tourist arrivals of India both in long and in short-run. The results signify that 1% increase in income of tourist originating countries increases the tourist inflow to India by 0.30% in the long-run. In the short-run,

one percent increase in income of tourist origin countries increases the tourist inflow by 1.40%. Therefore, an increase in GDP in the tourist originating countries is likely to have positive spill-over effects on the Indian tourism sector development. The results reveal that coefficient of income is positive in the long-run however greater than 1 in the short-run. Thus indicating that tourism is considered as a luxurious-good in the short-run; however, a normal good in the long-run. These findings indicate that with the improvement in the economic wellbeing, people start traveling to other countries for the purpose of leisure. However, over time, they get accustomed to traveling and thus the expenditure on travel and tourism becomes like a normal good.

The impact of relative price levels is found to be negatively related with tourism demand of India both in the short-run as well as in the long-run. Therefore, confirming that like other consumer goods, law of demand also holds for the tourism demand in India with positive income effect and negative price impact. The results signify that while making preference of a destination country, due consideration is given to price level and inflationary tendencies present in the destination country. These results of income and relative prices are in conformity with Salleh *et al.* (2007), Garin-Munoz (2006), Deluna and Jeon (2014), Balli *et al.* (2016) and Ferro Luzzi and Fluckiger (2003).

The impact of HDI is found to be positive and significant both in the long-run as well as in the short-run. Therefore, it indicates that level of education, health conditions and the living standard of people of the destination country are highly important for attracting international tourists. This may be due to the perception of feeling safe and secure in a

country with proper sanitation and people with good education and health conditions. Moreover, tourists with different languages find it easy to communicate with educated people and thereby reducing the communication gap. This impact of HDI on tourist arrivals is in conformity with the results of Kim *et al.* (2018). The impact of trade volume on international tourist inflows is found to be positive both in short-run and long-run. However, in the short run, the results are statistically insignificant. One percent increase in trade volume is found to increase the international tourist inflow of India by 0.36%. Phakdisoth and Kim (2007) and Leitao (2010) also found that international trade induces the tourists to travel to trading partners.

Coming to variable of interest, the impact of composite index of institutional quality on tourism demand is found to be positive both in the short-run as well as in the long-run. The relative magnitude of institutional quality as compared to other explanatory variables was found to be greater. One percent increase in the level of institutional quality of the country is likely to increase the tourist inflows by 0.79% in the long-run. The results indicate that tourists being risk-averse are very sensitive to the institutional environment of the destination country. Therefore, our results re-confirm the findings of Ryan (1993) who pointed out that while choosing the tourist destinations, tourists do not prefer countries characterized by political instability and higher criminal records. Therefore, instead of visiting a highly volatile country they prefer to visit substitute destinations which are safe and secure. These results are in conformity with the findings of Yap and Saha (2013), Roxas and Chadee (2013), Balli *et al.* (2016) and Kim *et al.* (2018).

Therefore, for tourism sector development, improving the institutional quality is of prime importance which in turn ensures the safety and physical security of the tourists.

Next, the chapter proceeds for a more comprehensive analysis where the impact of each of the individual component of institutional quality on tourist arrivals of India is examined. The results of the Model-II (as specified in equation V) are reported in Table 4.6.

Table 4.6: Autoregressive Distributed Lag Model Estimates: Individual Analysis of Institutional Quality Indexes (Model-II)

LONG RUN COEFFICIENTS			
Variable	Coefficient	Standard Error	t-statistic
lnGDP	0.2089	0.1091	1.9138**
lnRP	-0.3528	0.0981	-3.5936***
lnTRV	0.1459	0.0278	5.2347***
HDI	9.9572	0.6649	14.9755***
RL	0.519	0.1049	4.9434***
RQ	1.337	0.059	22.628***
VA	3.5717	0.2398	14.8928***
CC	0.0265	0.0885	0.2993
GE	-0.6355	0.0529	-12.0003***
SHORT RUN COEFFICIENTS			
COINTEQ01-	-0.3295	0.0617	-5.3359***
D(lnTA(-1))	0.0468	0.0641	0.7303
D(lnGDP)	1.4775	0.6478	2.2809**
D(lnRP)	0.2515	0.4106	0.6124
D(lnTRV)	-0.0225	0.0446	-0.5057
D(HDI)	2.5471	5.3175	0.479
D(RL)	0.0984	0.2281	0.4313
D(RQ)	0.1335	0.1345	0.993
D(VA)	-1.8352	0.4388	-4.1821***
D(CC)	-0.0467	0.1824	-0.2562
D(GE)	0.05	0.1046	0.4785
C	0.35	0.1244	2.8136***

Note: 'D' represents short-run coefficient *, **and*** represents level of significant at 10%, 5% and 1% respectively.

The results shown in Table 4.6 reveal that the impact of various variables on tourism demand like income, relative price, HDI and trade volume are supporting the counterpart results of the Model-I reported in Table 4.5. The impact of GDP, HDI and trade volume on tourism demand is again found to be positive where as the impact of relative price on tourism demand is found to be negative.

The impact of individual components of institutional quality like rule of law, regulatory quality, voice and accountability and control of corruption is found to be positively related with tourist arrivals of India in the long-run. However, the impact of control of corruption even though positive, is found to be statistically insignificant. The short-run coefficients of rule of law and regulatory quality are in consensus with their long-run coefficients, however insignificant. Thus, it seems that importance of institutional quality for tourism sector development is predominant in the long-run than in short-run. Therefore, tourists prefer to visit countries with efficient regulatory quality, well-established rule of law, strong judicial systems; where the citizens of the country are enjoying the basic rights like freedom of speech, freedom of expression, freedom of association etc. Existence of rule of law and efficient regulatory quality accompanied by freedom of expression and association creates a sense of security in the minds of tourists. The results related to regulatory quality and rule of law are in consonance with the findings of Roxas and Chadee (2013) and Detotto *et al.* (2021).

The impact of control of corruption on tourism demand in the long-run is in consonance with the findings of Poprawe (2015), Yap and Saha (2013) and Lau and Hazari (2011)

who held that corruption hinders the tourist inflow as it increases the travel costs just like taxes. The positive impact of voice and accountability in the long-run reflect that tourists prefer to visit the destinations where citizens enjoy the freedom of speech, freedom of media from political pressures and freedom of association. The negative impact of voice and accountability in the short-run may be due to the presence of free media, freedom of press, etc. through which news regarding any disastrous event spread very fast. This creates fear in the minds of international tourists and thereby reducing the tourist inflow in a very short span of time. However, over time as the country again resorts to normalcy, the unforeseen disastrous news automatically fades away and tourists again start to visit the country.

Contradictory to other components, the impact of government effectiveness is negative and significant in the long-run. However, in the short-run, its impact is positive and insignificant. The results may indicate presence of low quality of public service delivery mechanism. This may be in terms of delays in processing visas, strict restrictions and regulations on access to various areas, lack of clear long-term government policy and presence of politically backed policies for tourism sector development. The results of government effectiveness re-confirm the findings of Mckercher and Robbins (1998) who found that government restrictions and regulations and the continuous change in government policies cause hindrances in the development of the tourism industry. The impact of strict government policies and regulations like the rigid visa policy can be understood from the fact that during year 2018 due to ease in getting visa via 'Facilitative

Visa Regime', 2.4 million foreign tourists arrived in India on e-tourist visa; and thereby registering a growth of 39.6% over the year 2017 (MOT, GOI report, 2018-19).

To sum up, the results clearly demonstrate that institutional quality of a country has positive impact on demand for tourism. Therefore, besides the investment in infrastructure and tourist heritage cities and sights, the country needs to improve its institutional environment so as promote India among the leading tourist destinations of the world. This seem to be highly important as India lags behind other countries interms of safety and security (rank 122nd out of 140 countries), tourist service infrastructure (109th rank), health and hygiene (105th rank) and environmental sustainability (128th rank) (World Economic Forum, 2019). Besides as highlighted by Verma (1997), in developing countries like India characterised as multi-cultural, multi-religious and multi-lingual societies, the law and order situations like communal clashes, political agitations, controlling huge crowds are virtually faced on routine basis. Ahmad (2013) holds that current political scenario of Indian economy is characterised by communalism, casteism, annexation of vote bank by political parties etc. This is also evident from the fact that interms of corruption perception index ranking which indicates perceived level of corruption in public undertakings, India is at the 80th position out of 180 counties. These features depict a detrimental image of Indian economy at the international level, and therefore, tourists instead of visiting India prefer of visit its substitute neighboring countries.

4.6: Conclusions and Policy Implications

This chapter empirically tries to examine the impact of institutional quality on the international tourism demand of India by using Panel ARDL approach. To carry out the empirical analysis, panel data covering 30 top tourist originating countries of India for the time period 1995-2016 is used. The results revealed that the impact of GDP of tourist origin countries, relative prices, trade volume and HDI on international tourism demand was found to be in line with existing theory. The impact of GDP indicates that an increase in the income of tourist originating countries has positive spill-over effects on the tourism sector development of host country. The impact of cost of travel proxied by relative prices is negative. The impact of trade volume and development level (proxied by HDI) is found to have positive association with tourism demand. Composite institutional quality index is found to have a positive impact on tourism demand. However, the importance of institutional environment for tourism sector development seems to be more predominant in the long-run than in short-run. Besides, well established rule of law, voice and accountability, regulatory quality, control of corruption were found to have positive impact on international tourist inflows to India. Contrarily, the impact of government effectiveness on international tourism demand was found to be negative. Control of corruption has potential to reduce the costs per trip and tourists prefer to visit countries where people are enjoying the basic fundamental rights like freedom of speech, expression and association etc. Therefore, better quality of institutional environment in destination countries acts as a driving force for increasing tourist inflows

This study highlights the relevance of additional factors beyond the neo-classical approach (income and price as key determinants) in the analysis of tourism demand. The study revealed that travel and tourism to India is considered as a luxurious-good in the short-run, however, a normal good in the long-run. Thus, there is an indication that with the improvement in the economic wellbeing, people start traveling to other countries for the purpose of leisure. However, over time, they get accustomed to traveling and thus the expenditure on travel and tourism becomes like a normal good. The impact of price level also confirmed that like other consumer goods, law of demand also holds for the tourism demand in India with positive income effect and negative price impact. Besides, an improvement in socio-economic development level (proxied by HDI) was found to act as a pull factor for international tourist inflows to India. The impact of international trade indicated that it induces the tourists to travel to trading partners. Institutional quality being a determinant of a tourist's choice of destination; therefore it should be a key in the theoretical underpinning of tourism demand.

The study advocates the overall institutional environment needs to be improved to promote a sustained increase in international tourist inflows. The government and the policy makers should work towards establishment of rule of law, strengthen the regulatory quality of the bureaucratic officials, legal structure which is free from any political pressures and thereby creating an image of positivity, transparency, security and prevalence of optimism in the country. Focus on improving the level of educational attainments, health and sanitation and thereby improvement in overall standard of living is essential for the development of tourism sector. Besides being a determinant of a tourist's

choice of destination, the level of institutional quality of the host countries can serve as a foundation for issuing tourist advisories in their countries of origin. Therefore institutional quality should be key concern in any country's tourism policy.

Chapter 5

Institutional Quality, Political Instability and Tourism Demand: Evidence from Jammu and Kashmir

5.1: Overview

Jammu and Kashmir (J&K) popularly known as ‘Paradise on Earth’ has enormous tourism potential, but marred by continuous armed conflict and political instability. Due to the ongoing political instability, J&K is counted among the most militarised regions of the world. The political instability affects the economy of J&K in general and tourism sector in particular. The purpose of the present chapter is to empirically analyse the impact of political instability (proxied by number of killings in a year) on the foreign tourist arrivals of J&K. Additionally, the impact of institutional quality (proxied by rank of J&K in terms of total cognisable crimes) on its foreign tourist arrivals is also analysed.

The remaining part of the chapter is organized in various sections. Section 5.2 provides a brief introduction as prelude to the empirical analysis and section 5.3 discusses review of literature. Section 5.4 and 5.5 highlights the data sources and adopted empirical methodology respectively. Results and analysis are discussed next in section 5.6. Finally section 5.7 documents conclusions and provides some policy implications

5.2: Introduction

Tourism sector is one of the leading and budding economic sectors of the world (WTTC report, 2019). Over the years, the international tourist arrivals around the globe have

shown an enormous growth from 664 million in 1998 to 1.4 billion in 2018 (UNWTO report, 2019). It has also led to the generation of exports worth 1.7 USD trillion. Nowadays, people prefer to visit even the remotest destination in other countries of the world. This has helped in making the travel and tourism sector as an important driver of socio-economic process via creation of more and more employment opportunities, boost in the level of investment, infrastructural development and Foreign Exchange Earnings of the country. The international tourist arrivals grew at 5% in the year 2018 and thereby outpacing the world economy that grew only at 3.6% (UNWTO report, 2019). Additionally, the report highlighted that during last 7 years, the value of exports in tourism sector outpaced the value of merchandise exports and therefore helping many countries in reducing trade deficits.

The Indian subcontinent has the advantage of possessing rich and diverse range of cultural, natural, religious, and historical tourism resources and therefore attracting both domestic and international tourists. Over the years, there has been an ample boost in the foreign tourist arrivals of India. The foreign tourist arrivals of India in the year 2018 were estimated to be 10.56 million with a growth rate of 5.2% over the year 2015 (MOT, GOI report, 2019). The MOT, GOI has commenced diverse programs that facilitate and strengthen the tourism sector in the country. These measures include improving infrastructure, ensuring quality standard of services and ease in getting visa etc. Moreover, the MOT in support with the Ministry of External Affairs and Ministry of Home Affairs has introduced the Facilitative Visa Regime, which is the precondition for enhancing the inbound tourism. This has led to an increase in the e-visa facility for

around 167 countries. This e-visa facility in December 2018 was kept under 5 categories namely e- tourist visa, e-business visa, e-medical visa, e-medical attendant visa and e-conference visa. Due to these efforts, 2.4 million foreign tourists arrived in India on e-tourist visa in the year 2018 and therefore registering a growth of 39.6% over the year 2017.

J&K, currently a union territory of India, was one among the biggest princely states of India before the partition of the country into two parts (India and Pakistan) in 1947 (Raina, 2002). However, immediately after the partition, the political relations between the two countries worsened such that it resulted in several wars between India and Pakistan. J&K emerged as a territorial dispute between India and Pakistan where both countries claim it fully and rule it partially. The worsening relations with countries like Pakistan and China led to the decrease in the territorial area of J&K on Indian Territory (Raina, 2002). Looking like a crown on Indian Territory, J&K has China and Russian Turkistan on its North side, on the East side lie Tibet and from the South and South west it touches the borders of Indian states of Punjab and Himachal Pradesh and from West lies the North West Frontier, the Provinces of Pakistan, China and Russia (Raina, 2002). J&K previously comprised of three distinct subdivisions namely Muslim dominated Kashmir valley, Hindu dominated Jammu region and Buddhist dominated Ladakh region (Chaudhary, 2002). Up to 31stOctober 2019, the territory was enjoying the status of a special state within the Indian constitution. However, the J&K Reorganisation act, 2019 divided the state of J&K into two union territories namely J&K and Ladakh.

J&K being hilly in terrain with arctic and temperate climatic conditions has put a constraint on agricultural and industrial development. However, at the same time the chances of tourism led growth seem to be enormous. Tourism sector is one of the most important sectors of J&K economy. The importance of tourism sector in J&K is even more as it is sole bread and butter for most of people residing in the region. Tourism over the years has been the main source of job creation and economic growth. The contribution of tourism sector to the J&K's revenue was estimated to be 108 million for the year 2018-19 (Reserve Bank of India, State Finances: A Study of Budgets, 2018-19). Moreover, the industry provides huge employment opportunities to the unemployed people and is a key source of earning foreign exchange for the union territory. Tourism sector being labor intensive, therefore it minimizes the industrial job creating constraint in J&K. The tourism sector in J&K provides a wide range of employment opportunities and therefore engaging both skilled to unskilled labor forces. The industry directly increases the employment opportunities to the people of J&K in the form of hoteliers, transporters, shikara and house boat owners, tourist guides, pony rides etc. It also benefits indirectly via boosting the allied sectors like handicrafts, handlooms, and local agricultural products and thereby increasing the income generating opportunities for the local people living in the vicinity of these health resorts (Directorate of Economics and Statistics, Government of J&K, 2016). Moreover, it also gives impetus to the physical and infrastructural investment by creating demand for consumer goods and services.

Tourism sector has played an important role in the economic and social development of countries throughout the world. J&K being bestowed with meadows, green forests, snow-

capped mountains, mesmerizing gardens, wildlife, sparkling lakes and places of religious importance has huge tourism potential and attracts the international tourists. Adventure tourism, eco-tourism and religious tourism are key attractions of the region. The popular heart captivating tourist places Gulmarg, Pahalgam, Baag-e-Bahu, Bahu Fort, Sonmarg, Kokernag, Manda Zoo, Verinag, Mughal Gardens (Nishat, Shalimar) etc. increase the rush of both domestic as well as foreign tourist inflows to J&K. Gulmarg the meadow of flowers located about 52 kilometres from the capital city Srinagar is among the best places in J&K and is very famous for adventure tourism, skiing, golf, snowboarding etc. The Gulmarg Gondola which is one among the worlds' highest operating car cables add spices to the happiness of tourists while visiting the destination. Kashmir valley is also world famous for its dry fruits like walnuts, almonds and more importantly the saffron cultivation. The valley is also famous for its precious stones, handicrafts, wooden crafts, paper mashie, Pashmina shawls and finest kind of embroidery on clothes throughout the World (Raina, 2002). It is also home to Asia's largest fresh water lake (Wular Lake). The shikara (boat) ride in the Dal lake, Nagin lake and Manasbal lake is one of the mesmerising attractions of the valley. Jammu region, "the city of temples" is very famous for religious tourism, therefore majority of the domestic tourism is concentrated in this region, particularly the important destination of Shri Mata Vishnu Devi temple (Sharma *et al.*, 2012). Moreover, the divine faith among devotees at Machail Mata, Raghunath temple, Rambireswar temple, Bawi Wali Mata Temple, Peer Kho Cave Temple and Durgah Peer Budhan Ali Shah strengthens the flow of visitors in every corner of Jammu region. The Bahu temple located inside the Bahu Fort also remains a centre of attraction

for the visitors all over the country. The temple in addition of being a religious place, witnesses the splendid architecture of Bahu Fort and Mubarak Mandi Palace. The country's largest underground aquarium at Bage-e- Bahu also gets huge attention of the tourists from all over the country.

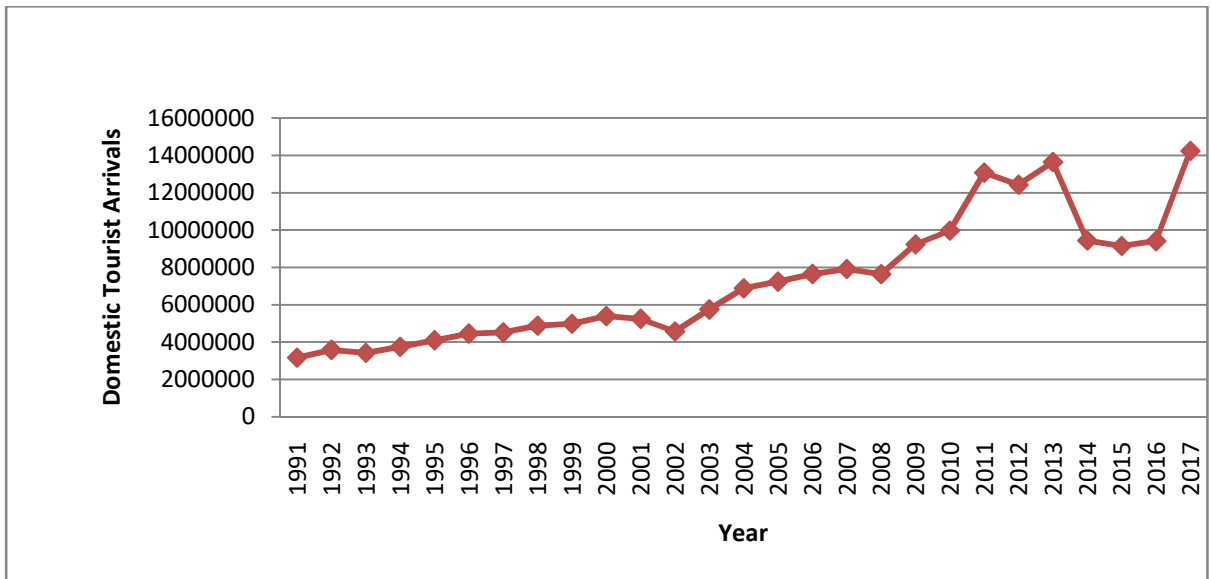
Though J&K is scenic and has potential to be one among the preferred tourist destinations but political instability offsets the flow of tourists. The emergence of militancy and violent conflicts during late 1980's had proven to be detrimental for the social, cultural, political and economic development of J&K. Akhtar (2010) highlighted that Kashmir issue has always been considered as fight for self-determination by Pakistan and therefore provides moral, political and diplomatic support to Kashmir cause. Contrarily to this, India considers the Kashmir issue as a matter of terrorism and blames Pakistan for arousing terrorist activities in Kashmir by backing and supporting cross border terrorism. The long existing political conflict in the valley has replaced the beautiful image of Kashmir into fear-provoking. Both the countries claim the ownership of Kashmir and therefore the political conflict has resulted in two fortified wars, thousands of killings, human rights violations, disappearances and acts of violence in J&K (Islam, 2014). Therefore, the name Kashmir which earlier used to reflect the images of beauty, hospitality and happiness in the minds of tourists has got drastically changed and has become synonymous with fear and threat.

This conflict has proven to be very harmful for the sustainability of tourism sector in J&K (Shah and Wani, 2014). Sonmez (1998) has rightly pointed out that political

instability at any place tends to severely affect the tourist inflow of that destination. The tourism industry considered as the backbone of J&K's economy has been severely affected by the continuous political instability and armed conflict. Tourism sector backwardness in J&K is not only due to political instability and violence but also because of lack of proper policy management, high level of corruption and inadequate infrastructural development. Additionally, the political instability since 1990's has diverged a huge portion of budgetary allocations from the economically productive activities to the maintenance of law and order in the state (Habib and Fatima, 2017). This has catastrophically affected the investment in the tourism sector and thereby resulting in its backwardness.

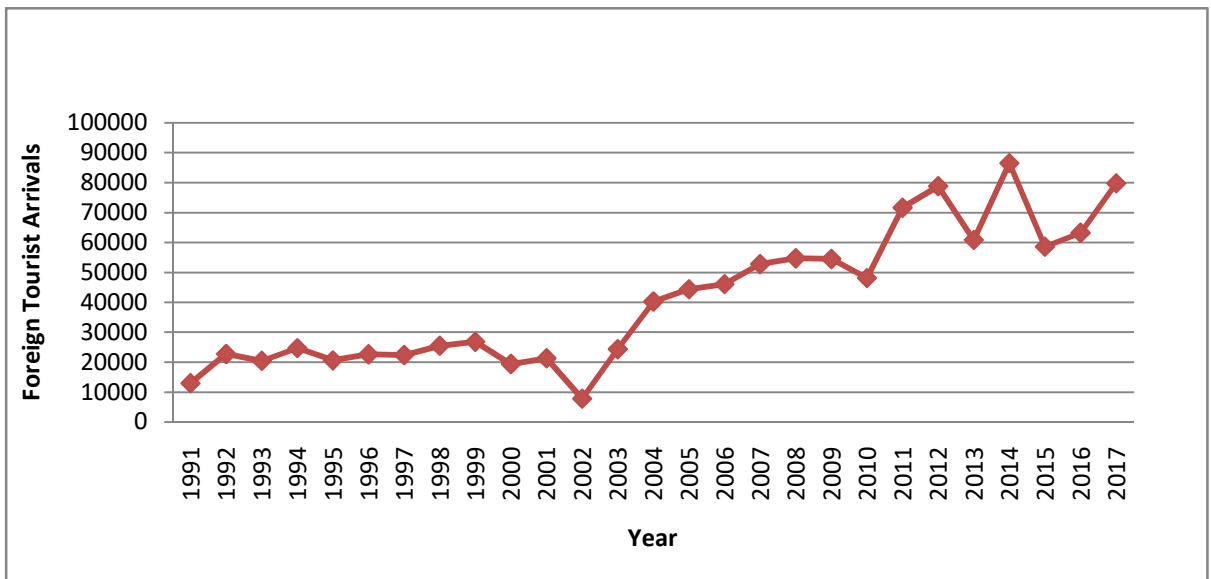
After the unrest of year 2016, the security conditions in J&K even worsened more. This can be highlighted from the fact that it has resulted in more than eight hundred killings in the subsequent years (Ministry of Home Affairs, GOI report, 2018-19) in the region. The figure 5.1 and Figure 5.2 highlight the domestic and the international tourist arrivals of J&K respectively for the time period 1991 to 2017.

Figure 5.1: Domestic Tourist Arrivals of J&K (1991- 2017)



Source: India Tourism Statistics (MOT, GOI).

Figure 5.2: Foreign Tourist Arrivals of J&K (1991- 2017)



Source: India Tourism Statistics (MOT, GOI).

It is evident from the figures that the domestic and international tourist inflow of J&K has not remained constant over time and has witnessed huge ups and downs. The Figures 5.1 and 5.2 highlights that the political instability in J&K from 1991 to 2002, and unrest of 2010, 2013, 2015 and 2016 has reduced both the domestic and foreign tourist arrivals of

J&K. However, the foreign tourist arrivals have been affected on a greater magnitude in recent years as compared to domestic tourism. This is due to the fact that the tourists being risk averse substitute other states of the country, where they can enjoy their trip without the risk of personal safety. Additionally, the domestic tourists who got affected on a lower scale are mainly those of religious tourists to Shri Mata Vishnu Devi and Shri Amarnath shrines that cannot be substituted to other states of the country. Therefore, it is evident that international tourist arrivals have been severely affected as compared to domestic tourists. Also adventurous and leisure tourism seem to get affected on a greater magnitude in J&K than the religious tourists. Additionally, from both the figures it is evident that the relative magnitude of increase in tourists to J&K is extremely lower as compared to the constantly increasing tourist inflows of India.

Tourism being the key driver of economic development needs to be promoted particularly in the region where alternate developmental strategies have less scope. The international demand for tourism being an important source of foreign earnings and having spill-over effect on other sectors need to be safe guarded from other influencing factors. How far the international demand of J&K is affected by the political instability and institutional quality has not been researched yet. Most of the studies available on tourism demand in J&K have examined its importance for NSDP and in creating additional job opportunities. However, to the best of the authors' knowledge, the study is the first attempt that has empirically tried to analyse the impact of political instability on the international tourism demand of J&K. Additionally, the study analyses the impact of

institutional quality of J&K on its international tourist arrivals. Therefore, the study adds to the literature and therefore attempts to fulfil the already existing research gap.

5.2: Review of Literature

The existing literature around the world has examined various aspects of tourism demand. However, much focus has been given on the traditional determinants of tourism demand. These include the income of the origin countries, price level, previous visits, heritage sites as the main determinants of tourism demand (Naude and Saayman, 2005; Eilat and Einav, 2004; Dogru *et al.*, 2017). However, recently a group of studies have analysed the impact of institutional factors like political instability, terrorist activities, corruption level, rule of law, regulatory quality on tourism demand (Kim *et al.*, 2018; Balli *et al.*, 2016; Roxas and Chadee, 2013; Yap and Saha, 2013; Santana-Gallego *et al.*, 2016). These studies in addition to traditional determinants of tourism demand have also incorporated the institutional environment variables in the demand function. Most of the studies hold that institutional environment present in the host country plays an important role in attracting the international tourist inflows (Balli *et al.*, 2016 and Roxas and Chadee, 2013). This is due to the fact that these variables determine the global image of the destination country. Therefore, when countries face the incidents of violence and terror, the potential tourist inflow of the country gets affected and tourists choose alternative destinations to travel (Hall and Sullivan, 1996). Additionally, various aspects of political instability like civil wars, military coups, declaration of martial law etc. endanger the safety of people which may hamper the tourist inflow towards that destination. This highlights that political instability and violence evokes fear in the minds

of tourists, therefore, the tourists choose alternative tourist destinations with less instability and risk factors. Moreover, the presence of political unrest and weak institutional quality increases the cost of travel as well as the perceived level of risk towards these destination countries resulting in the substitution of other tourist places that are relatively perceived to be safe (Enders and Sandler, 1991). Similarly, Pizam and Mansfeld (1995) found that the country's tourist inflows are strongly correlated with the prevailing security situations in the destination country.

Neumayer (2004) pointed out that the violent events in a tourist destination country might cause fear in the minds of potential tourists who may perceive of becoming the victims of the violence. Yap and Saha (2013) took a step forward by examining the impact of different aspects of political instability like internal conflict within the countries, government instability, religion based politics, external conflicts, ethnic tensions, and military in the politics on the tourism demand of the countries. In their model of estimation the authors also incorporated the variables of historical and natural heritage. The authors found that political instability index has significantly declined both the tourist arrivals as well as the tourism revenue of the countries by around 50 and 56 percent respectively. The impact of individual components of political instability particularly that of internal conflict, external conflict, military in politics and ethnic tensions also significantly reduce the tourist arrivals as well as tourist revenue of the destination countries. Likewise, the corruption level and terrorist activities present in a country also tend to decline the tourist inflows of the countries. The authors recommended that tourists are risk averse; therefore they try to avoid the level of risk

while taking any tourism related decision. Consequently, the economic agents mostly prefer to travel to the countries that are free from any political violence, ethnic tensions, and terrorist activities. The authors pointed out that given the potential benefits of the tourism sector, policy makers should take different initiatives for improving the institutional environment of their countries.

Narayan and Prasad (2007) while analysing the impact of Fiji's military coup on its economy found that military in politics has negative impact on the overall growth and development of a country. The results of the study highlighted that due to the military coup the Gross Domestic Product of the country declined; exports were contracted that affected balance of payment of the country negatively. The severity of its impact can be seen from the fact that country's tax revenue got reduced by 4.8%, even the government savings declined because of the resulting new investments for the construction of the destroyed and damaged infrastructure and other public assets. The country also faced the problem of declining real output demand of domestic industries accompanied by inflation and therefore reducing the national welfare of the country in real terms. The authors pointed out that Fiji has experienced period of political and economic instability due to frequent changes in the government. The greatest victim of the instability was tourism sector that is clearly evident from the declining foreign tourist arrivals of the country. This is due to the fact that prevailing unrest and violence in Fiji has forced the government of the origin countries to advice and refrain their citizens from visiting the place. Narayan and Smyth (2005) and Narayan and Prasad (2007) highlighted that the poor economic performance of Fiji is due to the continuous political instability that

aroused in Fiji after the military coup. Therefore, demand for tourism is fragile in nature and gets easily affected by the political conditions present in a country (Maditinos and Vassiliadis, 2008). Cavlek (2002) and Heng (2006) argued that among various disastrous events that affect the tourism sector, man caused disasters threaten people the most. The events like political instability and terror related activities not only cause physical harm but it develops fear and uncertainty in the minds of people and therefore affecting the potential tourist inflow to the country (Sonmez and Graefe, 1998). Hai and Chik (2011) also highlighted that the main reason behind the weak performance of tourism sector in Bangladesh is the prevalence of political instability in the country. The author noted that from the eve of independence, the country continuously faced the problems of political instability, strikes, civil unrest that has deteriorated the image of the country at the global level. Consequently, the foreign tourists refrain from visiting the country.

Besides, many studies have taken into account the impact of criminal activities on the tourism demand of the country. Most of the studies found that the criminal events have negatively affected the tourist arrivals (Altindag, 2014 and Baker and Stockten, 2014). Similar to the events of political instability, the criminal events and violence have serious impact on the tourist arrivals of the country (Ryan, 1993). Moreover, the study pointed out that the broadcasting of criminal events by some influential news channels can adversely affect the tourism demand of the country particularly at the time of making decision regarding the choice of tourist destinations. Glensor and Peak (2004) suggested that to fully obtain the potential benefits of tourism sector, the authorities of the country should give their full efforts in reducing the criminal activities of the country. This may

be due to the personal security concerns of tourists due to which they avoid to visit the country (Chiu, 2008). People by nature are concerned for their safety and in order to avoid the risk factor they refrain from visiting risk prone places. Therefore the events of crime in addition to the criminal victims, affect the chain of people that are linked to them in one way or another way. This is because the “word of mouth” plays an imperative part in deciding about the tourist destinations (Witt and Witt, 1995 and Dogru *et al.*, 2017).

Mehmood *et al.* (2016) also examined two way relationship between crime rate and tourist arrivals of USA and found that increase in tourist arrivals and immigrants have positive relationship with the criminal activities in the short-run. On the other hand, the crime rate negatively affects the tourist arrivals of the country in the short-run and positively in the long-run. Santana-Gallego *et al.* (2016) also examined the impact of crime, corruption and terrorism on tourism demand of 171 countries. The authors found that there exists a negative relationship between crime rate and tourist inflows of countries. However, the impact of crime and terrorism was found to be greater in magnitude on leisure tourism than the business tourism that gets highly affected by the level of corruption present in the destination country. The study further highlights that crime and terror related activities have affected the tourism demand of the destination countries particularly from the stable regions as compared to unstable regions. These findings suggest that the tourists with safe and peaceful home environment will prefer to visit countries with the same characteristics, because they are not habitual to such uncertainties at their residing place. Assaf and Josiassen (2012) argued that the

environmental and cultural attractions of the country fail to increase the international tourist inflow when the country is prone to high level of criminal rates and high level of corruption. Similarly, Sandler (2014) claimed that the acts of crime, corruption and terrorism act as negative elements for the economic development of the countries. This is due to increase in both direct costs (in the form of damaged structures, loss of human life, injuries caused) as well as indirect costs (in the form of deployment of high security forces and impact on trade and commerce and other economic activities of the economy).

Contrarily some studies found that crime rate present in a country has positive impact on the tourist arrivals of the country (Biaggi and Detotto, 2014 and Grinols *et al.*, 2011). Further, some studies claimed that the tourist arrivals can also increase the criminal activities in the destination country (Fujji and Mak, 1980; Ochrym, 1990; Mehmood *et al.*, 2016). The resulting increase in the criminal activities may be for the sake of fulfilling the needs like prostitution and drugs for the tourists (Ryan and Kinder, 1996). Mehmood *et al.* (2016) further added that the reason for tourists being becoming the victims of these criminal activities is that they are easily recognised because they look different from the native people of the area and also because of wearing unusual clothes. Also they are being targeted because they are in possession of huge amount of money, expensive items like cameras, jewellery etc. However, some studies suggest that tourists are targeted because they approach to places that are usually considered as dangerous by the people of the region (Omisore *et al.*, 2013).

In India researchers from time to time have focused on tourism sector as an academic literature (Mishra *et al.*, 2011; Georgantopoulos, 2013; Kaur and Sarin, 2016; Gupta and Singh, 2015; Dhariwal, 2005; Parida *et al.*, 2017 and Ranga and Pradhan, 2014). However, most of the studies have analyzed the impact of tourism on the country's economic development and on the creation of employment opportunities (Mishra *et al.*, 2011; Ghosh, 2011; Georgantopoulos, 2013, Ohlan, 2017). Only a meagre quantity of studies have focused towards the factors that determine the tourism demand of the country (Dhariwal, 2005; Ranga and Pradhan, 2014 and Parida *et al.*, 2017). Additionally, the impact of factors like political violence, institutional quality, rule of law, crime rate, and corruption level as determinants of tourism demand have recently gained much scholarly attention in global tourism literature. However, for India most of the studies have neglected its impact on tourism demand with only few exceptions (Parida *et al.*, 2017; Ranga and Pradhan, 2014 and Dhariwal, 2005). These studies have analyzed the impact of certain aspects like communalism and crime on the tourism demand of India. Yet, none of the studies have empirically analyzed the impact of institutional quality factors and political violence on tourism demand of the country.

Parida *et al.* (2017) while examining the various determinants of foreign and domestic tourist arrivals for a panel of 25 Indian states found that the criminal activities have negative and significant impact on both the foreign as well as domestic tourist inflow of various states of India. However, the terror related activities does not affect the domestic and foreign tourist arrivals of Indian states significantly. This is because the impact of terrorist activities lasts for a short period and fades away with the passage of time. The

study also highlighted that terrorist attacks have deteriorated the global image of the country. Chiu and Lin (2011) while examining the risk perception of international tourists in India found that the risk involved with tourism affects both the willingness of the tourists to visit the destination country as well as the development level of tourism industry negatively. The authors found that although the tourists in India have proven to be victims of harassment and fraudulent actions, but the incidence of violent crimes and sexual crimes related to tourists are very less in number. The study further highlighted that the perception of being victim not only affects the tourist decisions of visiting the country again but they also suggest their friends and relatives not to visit the country. Dhariwal (2005) also highlighted that the country is not able to reap the potential benefits from the tourism sector because of the prevalence of communalism, terrorist activities and Indo-Pak tensions. Therefore, these acts limit the gains that could have been obtained from this industry. Moreover, the country is not attracting the expected number of tourist arrivals because the image of India at global level reflects weak social services, political instability, terrorism and thereby creating negative perception of the country particularly in terms of infrastructural and safety concerns (Chaudhary, 2000). The author highlighted that the country being home to rich historical and cultural heritage can benefit more from the sector if the image of the country can be developed as a cultural destination.

Coming to the region of interest, the importance of tourism industry to generate income and create new employment opportunities has been widely recognised in the tourism literature related to J&K (Singh and Ungum, 2016; Gupta and Raina, 2009; Mir, 2014). The tourism sector of J&K can prove very fruitful for the economic development of the

region. However, due to the political instability and armed conflict in the region particularly after 1990's, the tourism sector got severely affected (Mubarak, 2019 and Sharma *et al.*, 2012). Recent studies have shown interest in analysing the impact of political instability, armed conflict, insurgency and fatalities (due to violence) on the tourist inflows of the region (Habib and Fatima, 2017; Hussain and Shivashanmugan, 2015; Shah *et al.*, 2013; Shah and Wani, 2014; Ahmad and Hussain, 2011). Sharma *et al.* (2012) highlighted that before the emergence of militancy, Kashmir valley used to be the favourite tourist destination for both domestic as well as international tourists. But soon after the uprising of armed conflict in the valley, the tourists diverted their visits to other parts of the country resulting in huge damage of tourism sector of J&K. The authors pointed out that till now, due to the continuous conflict in the region, the tourism sector is not able to reach its pre-militancy position. Similarly, Habib and Fatima (2017) highlighted that due to the political instability in the region, the resources have been diverted from economically productive sectors to the maintenance of law and order conditions and consequently has hampered the development of the tourism sector in J&K. The impact of instability is such that, even the investment level of the region came under its grip, therefore, diverting it from productive to non-productive sectors of the economy. The study also highlighted that the emergence of armed conflict and the consequent killings reduced the tourist inflow of the region particularly during the years of 1989-2002 (when the political instability in the region was at its peak). However, post 2002 after the improvement of the political conditions in the region, tourist inflow was seen to improve, therefore signifying that the prevalence of political instability creates fear in the

minds of people and deteriorates the image of the destination place as a result of which, tourists avoid to visit those destinations. Hussain and Shivashanmugan (2015) also confirmed that tourism sector responds positively to the situation of peace, and the growth of the sector is halted due to the elements of violence and disturbance in the region. Shah *et al.* (2013) reconfirmed that the prevalence of armed conflict and instability particularly in the last two decades has hampered the overall development of all the sectors of the valley, among which tourism sector has been the worst victim. Further, the study added that the allied sectors like Kashmiri art and craft, paper mashie, unique handicrafts also have been the victims of the ongoing instability. Therefore, the conflict and turbulence has resulted in the economic downturn of the region.

Shah and Wani (2014) found that the continuous conflict from last three decades between India and Pakistan has resulted in the armed race between the two countries and therefore resulted in huge economic damage to both the countries. The study claimed that due to the prevalence of instability and insurgency in the region and the resulting killings, people usually consider Kashmir as an unsafe place for travelling. Consequently, the economy of the region particularly the growth of the tourism sector has witnessed huge losses. Chauhan (2007) pointed out that safety and security conditions in Kashmir valley have deteriorated the image of the region as a tourist destination. Bhat *et al.* (2017) highlighted in their study that people in J&K particularly related to the tourism sector (houseboat owners, tourism transporters, pony owners, hoteliers, and handicraft shops) faced miserable economic conditions during the periods of instability. The instability in addition to income and employment aspects affects the FEE of the country and therefore

causing huge damage to the economy. Kumar (2018) while examining the different challenges and problems faced by tourism sector in the region found that the main problem is related to the conflict and violent situations resulting from the continuous political instability. The author further added that political unrest, insecurity, and insurgency create a negative perception regarding the tourist destination and therefore hindering its tourist inflow. Additionally, the problem of unnecessary frisking at military zone areas creates a sense of threat among the tourists. Ahmad and Hussain (2011) highlighted that due to the continuous instability in J&K, the economic growth of the region is usually much lower than the national economic growth. Additionally, the study highlighted that it has caused huge damage to the private and public properties in the valley. The economic loss due to the ongoing conflict and instability to the valley is enormous, as numerous government buildings, hospitals, bridges, houses and shops were gutted into fire. Similarly, Shah *et al.* (2013) and Islam (2014) noted that in spite of being one of the most attractive places of the country, the prevalence of armed conflict in the valley has negatively affected the economic growth of the region in general and tourism sector in particular.

To sum up, the existing literature on tourism demand highlighted that the prevalence of political instability, terrorist activities, crime rate, instability, military conflict in J&K has negatively affected the economic growth at both national as well as at local levels. Tourism sector being highly sensitive to the events of political unrest, terrorism and crime, has been one of the worst victims of such events. The severity of its impact can be judged obviously as all the aspects of development like income, employment, savings,

investment, revenue, infrastructural development etc. have shown a negative association. However no study in context of J&K has analysed the impact of political instability and institutional quality on the international tourism demand. This study attempts to fill the existing literature gap and therefore assumes importance.

5.4: Data and Methodology

In order to empirically investigate the impact of institutional quality and political instability on the international tourist arrivals of J&K, the study follows Roxas and Chadee (2013), Yap and Saha (2013), Santana-Gallego *et al.* (2016) and Narayan and Prasad (2007). Additionally, the study will also incorporate the likely impact of economic development as measured by Per Capita Net State Domestic Product (PCNSDP) at constant prices on the international tourism demand of J&K.

5.4.1: Data Sources and Variables

To carry out the empirical analysis, the study employed time series data from year 1991 to 2017. The specified time period has been chosen purely on the grounds of availability of data for all the required variables. The data used for the present analysis has been extracted from a wide range of sources. Data on annual number of foreign tourist arrivals of J&K has been obtained from various volumes of “India Tourism Statistics” published by the Ministry of Tourism, Government of India^{xvii}. The data on PCNSDP at constant prices (in Rupees) used as a proxy for economic development has been extracted from various volumes of “Handbook of Statistics on Indian States” published by the Reserve Bank of India^{xviii}. The various volumes of the handbook provide data on PCNSDP at

constant prices for different years with different base year. Consequently the data was transformed for all the years with similar base year of 2011-12. Data on annual fatalities in J&K as a result of armed conflict (used as a proxy for political instability) has been obtained from Institute for Conflict Management (2019). The data on rank of J&K interms of total cognisable crimes reported by the Indian panel code (proxy for institutional quality) has been obtained from various volumes of “Crime in India” published by the National Crime Report Bureau^{xix}, Ministry of Home Affairs, Government of India. Here the states and union territories are ranked interms of total cognisable crimes per 100000 persons, and the state with highest number of crimes is ranked number one.

5.5.2: Econometric Model Specifications and Methodology

The empirical specification used in the study is as:

$$\ln FTA_t = \beta_0 + \beta_1 \ln PCNSDP_t + \beta_2 \ln PI_t + \beta_3 \ln IQ_t + \varepsilon_t$$

Where, $\ln FTA_t$ is the natural log of Foreign Tourist Arrivals of J&K at time period t, $\ln PCNSDP_t$ is the log of Per Capita Net State Domestic Product at Constant Price at time period t, $\ln PI_t$ is the log of Political Instability at time period t, and $\ln IQ_t$ is the log of Institutional Quality present in J&K. β_1, β_2 and β_3 are the slope coefficients of PCNSDP, political instability and institutional quality respectively. β_0 is the intercept term and ε_t is the error term.

As a preliminary analysis, the study first used Ordinary Least Square (OLS) Method to examine the impact of institutional quality and political instability on the international tourism demand of J&K. However in time series data, the presence of unit root process may lead to invalid regression estimation, if the error term does not meet the basic assumption of the Classical Linear Regression Model (Salleh *et al.*, 2007). Most of the studies on tourism demand have followed the same path, thereby ignoring the problems associated with non-stationary data (Phillips, 1986). These estimates may lead to spurious regression analysis (Morley, 1998). Therefore, as a robustness measure, the study has also employed the Fully Modified Ordinary Least Square (FMOLS). The FMOLS was developed first time by Hansen and Phillips (1990) to estimate the long-run relationship among the cointegrated variables. Initially, the FMOLS method was developed to estimate the cointegrating relationships by modifying the traditional OLS to take account of endogeneity and serial correlation (Phillips, 2005). Besides, FMOLS helps to control the issue of potential endogeneity and serial correlation, thereby provides asymptotically unbiased estimates (Mushtaq and Zaman, 2014). Hansen and Phillips (1990) and Phillips and Loretan (1991) hold that this estimation technique is more fruitful as compared to other methods of estimating cointegrating relationship among the vector of various explanatory variables.

5.5: Empirical Results

OLS method is used to analyse the impact of institutional quality and political instability on the foreign tourist arrivals of J&K. The results from OLS method are reported in Table No. 5.1.

Table 5.1: Ordinary Least Square Estimation

Variable	Coefficient	Std. Error	t-statistic
lnPCNSDP	0.3397	0.1329	2.5552**
lnPI	-0.3425	0.0660	-5.1841***
lnIQ	0.1834	0.3924	0.4675
C	8.7392	2.3489	3.7205***
R ²	0.7853		
Adj-R ²	0.7573		

The results reported in Table 5.1 highlight the validity of the adopted model on the data set as the value of both R² and Adjusted R² are quite high (78 % and 75%). The estimated results indicate that variable PCNSDP has positive impact on the foreign tourist arrivals of J&K. One percent increase in PCNSDP of J&K is found to increase the international tourist inflows by 0.33 percent. The results indicate that economic development of the region also ensures the development of tourism sector in terms of constantly increasing international tourist inflows. Thus economic development of the state has spill-over effects and attracts the foreign tourists. The impact of economic development on the international tourist demand is in accordance with the findings of Parida *et al.* (2017) who also highlighted that economic development ensures significant inflows of foreign tourist arrivals across Indian states. This is on account of greater diversion in the proportion of funds for infrastructural development and other tourism related services (transportation, amusement parks, development of untapped health resorts etc.), that is made possible with increase in NSDP.

The political instability (PI) has negative coefficient signifying that an increase in political instability decreases the international tourist arrivals of J&K. The results reveal that 1% increase in number of killings in the region due to political instability reduces the international tourist inflow in J&K by 0.34%. The impact of political instability on the tourism demand is in consonance with the findings of Yap and Saha (2013), Ahmad and Hussain (2011) and Habib and Fatima (2017). These studies also hold that political violence negatively affects the tourist inflows of a country. These findings are also obvious from the drastic downfall in the trend of the international tourist inflow (Figure 5.2) during the years 1991, 1993, 2002, 2010, 2013, 2015 and 2016 that also coincide with the years of increased political instability in the J&K economy. Therefore, it seems tourists have substituted other states of India in place of J&K where the risk perception related to violence and instability is quite low. The decline in tourist inflows is attributed to political instability and many associated reasons. Increase in the number of armed troops, frequent frisking and identity checks, threat of abductions and hostage-taking, caught in cross-firings and explosions creates fear among the international tourists. This has converted the valley from beautifully quoted “paradise on earth” to one of the ‘most militarised regions of the world’. The impact of political violence on tourism sector is also obvious from the fact that just before few days of the abrogation of Article 370 in August 2019 in J&K, the Government of India directed all the domestic and international tourists to leave the state as soon as possible. As a result, the peak season of tourism in J&K was left deserted with huge losses to the associated industries.

The variable institutional quality (IQ) has positive coefficient indicating that with the improvement in institutional quality of J&K, the international tourist arrivals also increases. Even though the coefficient of institutional quality is high (0.18), it is statistically insignificant. The results on the impact of institutional quality are supporting the findings of Balli *et al.* (2016). The positive impact of institutional quality is an indication that tourists prefer to visit places that are characterised by strong institutional environment. Strong institutional environment reduce the non-financial costs of the tourists in the form of reducing time required to complete the formalities due to efficient government quality. Moreover strong institutional quality develops a level of confidence among the tourists on the institutions of the country such as police, judiciary and bureaucratic system etc. The lack of significance of institutional quality reveals that the international tourism demand in J&K seems to be more responsive to the political conditions as compared to quality of institutions. Besides, as compared to regional institutional quality of a particular state or union territory, institutional quality of the country as whole (that influence their procedures regarding visas, permits etc.), may be considered by tourists while deciding to visit a particular country. Therefore, international tourists seem to be more concerned about political instability than institutional environment while deciding to visit tourist destination.

Table 5.2: Diagnostic Tests

Test statistic	F-statistic	Df	Probability Value
Bruesch-Pagan Godfrey test	0.7512	Prob.F(3,23)	0.5328
Bruesch- Godfrey LM test	0.0928	Prob.F(2,21)	0.9117

Table 5.2 shows the results of diagnostic tests like Bruesch-Pagan Godfrey test and Bruesch-Godfrey LM test to check the existence of Heteroscedasticity and Serial correlation problems respectively. The results indicate that the value of F-statistic associated with both the tests is statistically insignificant. Therefore, indicating that the adopted model is free from the problems of serial correlation and heteroscedasticity. Therefore, projections/inference based from the model ensures high robustness.

The study next proceeds to check for the robustness of the results and employed FMOLS method. Before, estimating the coefficients, the cointegration relationship among the set of explanatory variables was examined using Wald's cointegration test. The results of the Wald cointegration are reported in the Table 5.3.

Table 5.3: Wald's Cointegration Test

Test statistic	Value	Df	Probability
F-statistic	86.0635	(3,23)	0.0000
Chi-statistic	258.1908	3	0.0000

The results show that the null hypothesis of no cointegration gets rejected. Therefore there exists long term equilibrium relationship among set of economic variables used in the model. After estimating the cointegration results, the study proceeds to estimate the long-run coefficients of the independent variables. The results of FMOLS model are shown in Table 5.4.

Table 5.4: FMOLS Estimation

Variable	Coefficient	Std. Error	t-Statistic
lnPCNSDP	0.2765	0.1514	1.8257*
lnPI	-0.3711	0.0646	-5.7445***
lnIQ	0.0739	0.3704	0.1996
C	9.9146	2.4909	3.9801***
R ²	0.7826		
Adjusted R ²	0.7529		

These estimated results of FMOLS method are in conformity with the results of OLS estimates reported in Table 5.1. Again the value of R² and Adjusted R² are quite high signifying model being well fit. The impacts of all the economic variables are supporting their earlier counterpart results. The results again indicate that the PCNSDP (at constant prices) of J&K has positive association with the international tourist arrivals of J&K economy. Similarly, the impact of political instability turned out to be negative and is statistically significant at 1% level of significance. The impact of institutional quality once again turned out to be positive, but statistically insignificant. Therefore there is no major significant difference in results of the two adopted methods.

5.6: Conclusion and Policy Implications

J&K with enormous tourism potential is marred by armed conflict and political instability. The political instability in the valley has reduced the international tourist arrivals in J&K from 24683 in the year 1990 to 7806 in the year 2002. Therefore, ongoing violence and instability seems to downgrade the international image of the region as the one with enormous killings, human rights violation, armed conflict,

terrorism and war like situations. With this background, the present chapter tries to analyse the impact of political instability and institutional quality on the international tourism demand of J&K. For the analysis purpose, the OLS and FMOLS methods have been employed for the time period 1991 to 2017.

The results of the study indicated that the economic development of the destination place acts as a pull factor in attracting the international tourists. These results signify that the destination places characterised by strong economic development seem to provide efficient service quality in the form of accommodation, food, transportation etc. The impact of political instability on international demand for tourism in both the adopted models was found to be negative and highly significant. Thus, political conditions prevailing at a place determine the growth and expansion of its tourism sector. This is mainly on account of tourists being highly sensitive to the political conditions prevailing in the destination country. The results on the impact of institutional quality turned out to be positive; however, statistically insignificant. Therefore, signifying that the efficient institutional aspects like police, judiciary and bureaucratic system creates a sense of security and a positive impression among the tourists. The insignificant impact of institutional quality seems to connote that international tourists are more responsive to violence and instability as compared to institutional environment in the destination place.

The study highlights that the ongoing political instability due to conflict has proven to be detrimental for the economy of J&K in general and tourism sector in particular. Therefore, conflict resolution is a key for bringing down the number of killings and ensuring political stability. Government should take all the possible steps to guarantee the

protection and safety of tourists and avoid unnecessary frisking and frequent identity checks that create inconvenience to the tourists. Besides, increase in international tourist arrivals will also portray an image of normalcy among the tourists. Therefore, a positive message not only about the beauty and attractiveness of various places of J&K, but the record of zero crimes against tourists should be promulgated throughout the world. For the outreach programme, use of media and other networking sources should be used for promoting the tourism sector of the region. Moreover, the institutional quality of the union territory of J&K should be improved by establishing rule of law and ensuring more accountability.

Being one of the principle sectors of an economy, the tourism industry needs to be promoted. The infrastructural base of the tourist destination should be strengthened in the form of development of new health resorts, construction of new hotels, roads, better transport facilities and communication etc. The hoteliers, transporters, tourist guides and houseboat owners should be motivated to provide better quality services to tourists, so that they will prefer to visit the destination place again and again. The Department of Tourism, J&K in collaboration with the local people should organise different tourism related events (handicraft exhibitions, snow festivals, shikara ride competitions etc.) in the peak tourism seasons so as to add attraction to tourism in J&K. Eco-tourism and Adventure tourism activities like trekking, mountaineering, skiing, river rafting for which the place has huge potential should be promoted so as to reap the full benefits from this sector.

More importantly, Both India and Pakistan should revive the long pending peaceful dialogue process so that huge losses (human as well as economic) and suffering of people of J&K associated with the ongoing political turmoil are minimised as much as possible.

Chapter 6

Conclusions

6.1: Overview

Tourism is considered as an important factor for promoting economic growth across the globe. The industry offers gigantic returns in the form of rising worldwide income, absorption of labour force, facilitation of investment levels and advancement of global economy as a whole. International tourism demand is one of the key policy areas that has assumed added importance for the development of tourism sector in general and economic development in particular. Given the importance of international tourism demand, this study has tried to analyse the impact of institutional environment on the international tourism demand of India in general and impact of institutional quality and political instability on the international tourism demand of Jammu and Kashmir in particular.

The present chapter documents the conclusions of the whole study. This chapter is divided into various sections. Section 6.2 reflects the background of travel and tourism industry in India. Section 6.3 discusses summary and findings of the study. Section 6.4 provides the suggestions and policy implications. Finally scope of limitations and future research of the study are discussed in sections 6.5 and 6.6 respectively.

6.2: Background

The increasing importance of tourism sector in economic development is well established in the economic literature. World Economic Forum (2019) highlighted that in coming

decades the contribution of this sector towards the global GDP is expected to rise by about 50%. This indicates that the policy makers, industry leaders and other stake holders need to pay more focus on how to facilitate the tourism competitiveness in order to get greater share from this growing market.

India being a developing country and characterised by large scale unemployment is also in a firm competition with different countries of world interms of increasing its share in the world tourism market. The competitive advantage of Indian tourism lies in its magical attractions and rich cultural and heritage sites. The country offers a wide range of attractions ranging from highest mountains, ancient and glorious monuments, miscellaneous wildlife, mixed cultures, eye catching palaces, forts, fairs, festivals, friendly tradition and lavishing treatment to its visitors. Moreover the country is also performing better interms of air infrastructure, ground and port infrastructure, price competitiveness, international openness and interms of diverse cultural resources which also acts as a positive stimulus in attracting huge international tourist inflow. Even though the country has vast potential to attract international tourists, however the country is not getting the expected number of international tourist inflow. There are different aspects where the country performs poor and hence deteriorating its tourism competitiveness. The country lags much behind interms of safety and security (rank 122nd out of 140 countries), 105th interms of health and hygiene, 128th interms of environmental sustainability, and 109th interms of the tourist service infrastructure (World Economic Forum, 2019). Moreover the institutional quality of the country is continuously falling (Kumar, 2005). This is on account of the ongoing violent acts, higher level of corruption,

communal riots and other political problems. Due to the deterioration of institutional quality, the country faces huge challenges in terms of appealing the international tourists. Consequently it is the primary concern of policy makers and researchers of the country to examine the factors that affect the international tourism demand of the country. Therefore this chapter as a preliminary analysis, first examines the determinants of international tourism demand in India. Then the study proceeds by comprehensively analysing the impact of institutional quality on the international tourism demand of India. Similarly the tourism sector in Jammu and Kashmir faces different challenges due to the ongoing political instability and armed conflict in the region. Moreover the union territory usually remains in the top 5 most corrupted states of the country. Therefore the present study also investigates the impact of institutional quality and political instability on the foreign tourist inflow of Jammu and Kashmir.

There is a vast economic literature available related to the tourism sector of the country however more pronounced towards analysing its impacts on the growth, development and employment generation of the country. Moreover, analysing the determinants of tourism demand has also got the scholarly attention in recent times. However the present study is the first attempt that has investigated the impact of institutional quality on the international tourism demand of India in general and Jammu and Kashmir in particular which so far has been neglected in Indian context.

6.3: Summary and Findings

The first specified objective of the study was to carry out a preliminary analysis for identifying the main determinants of international tourism demand in India. In order to identify the main determinants of international tourism demand in India, the panel single equation Generalised Method of Moments proposed by Arellano and Bond (1991) was employed. The proxy variable used for international tourism demand was ‘annual number of international tourist arrivals in India’ collected from World Tourism Organization (2018) from year 1995-2016. The data on other independent variables was collected from varied sources for the same time period (see chapter III for details). The results of the model are documented below:

- The results suggested that the lagged dependent variable (previous visits) has positive and significant impact on the international tourist arrivals of India. It signifies that satisfaction obtained from their previous trips motivates international tourists to visit the tourist destination again and again
- The impact of income of the tourist origin country measured by GDPPC has also positive and significant impact on tourist arrivals of India. This highlights that economic wellbeing of the tourist originating countries is important for attracting the tourist inflow towards India.
- The impact of the tourism price measured by RPEX on international tourist arrivals of India turned out to be positive but statistically insignificant.
- Trade openness is found to have positive and significant influence on the tourist arrivals of India implying that trade ties among the countries helps in developing

familiarity and knowledge regarding each other which in turn provides impetus to their tourism.

- The impact of Corruption Perception Index (where higher value reflects lower level of corruption) was also found to be positive and significant. It reveals that tourists being rational economic agents always try to averse the risk associated with failure of institutions. So, before visiting any tourist destination, tourists take into consideration the institutional environment of that country.

The second specified objective of the study was to comprehensively analyse the impact of the institutional environment of India on its international tourism demand. Here the study proceeds by broadening its coverage of the impact of institutional quality factors on the international tourism demand of the country. For this, the study first analyses the impact of composite institutional quality index, and then proceeds by evaluating the role of each individual component of institutional quality on the tourism demand of the country. To analyse the impact of institutional quality on the international tourism demand of India panel Auto-Regressive Distributed Lag model has been employed to investigate its impact both in the short run as well as in the long run. Panel data from 30 top tourist originating countries of India from year 1995 to 2016 has been used. Again the proxy for international tourism demand is annual number of international tourist arrivals in India collected from World Tourism Organization (2018). The array of independent variables include GDP (at constant USD) used as a proxy for economic well being of tourist origin countries, relative price levels between India and the tourist originating countries used as a proxy for tourism prices, trade openness between India and tourist

origin countries, HDI value of India and composite institutional quality index of India respectively (see chapter IV for details).

As mentioned, the study proceeded by evaluating the role of each individual component of institutional quality on the tourism demand of the country. The individual components of institutional quality include rule of law, voice and accountability, control of corruption, regulatory quality and government effectiveness. The data regarding these variables has been collected from World Bank's database on Worldwide Governance Indicators (WGI). The study thoroughly examined whether the factors like rule of law, voice and accountability, control of corruption, regulatory quality and government effectiveness affect tourism demand. The results of the second objective have complemented and strengthened the findings of the first objective of the study. The results of the second objective are as follows:

- The GDP of tourist originating countries has positive and significant impact on international tourist arrivals of India both in long and in short-run. This implies that an increase in GDP of the tourist originating countries is likely to have positive spill-over effects on tourism sector development of India.
- The impact of relative price levels is found to be negatively related with tourism demand of India both in the short-run as well as in the long-run. The results signify that while making preference of a destination country, due consideration is given to price level and inflationary tendencies present in the destination country.

- The impact of trade openness on international tourist inflow is found to be positive both in short and long-run. However, in the short run, the results are statistically insignificant.
- The impact of HDI on international tourist arrivals of India is found to be positive and significant both in the long-run as well as in the short-run. Therefore, it indicates that level of education, health conditions and the living standard of people of the destination country are highly important for attracting international tourists.
- The impact of institutional environment (captured by composite indicator) of the country is also found to attract huge international tourist inflow towards India.
- The results of the Model II (see chapter IV for detail) in which the impact of individual components of institutional quality has been analyzed reveal that the impact of various variables on international tourism demand like income, relative price, HDI and trade volume are supporting the counterpart results of the Model-I (see chapter IV for detail). The impact of GDP, HDI and trade volume on tourism demand was again found to be positive where as the impact of relative price was found to be negative.
- The impact of individual components of institutional quality like rule of law, regulatory quality, voice and accountability and control of corruption is found to be positively related with tourist arrivals of India in the long-run. However, the impact of control of corruption even though positive, is found to be statistically insignificant.

- The short-run coefficients of rule of law and regulatory quality are in consensus with their long-run coefficients, however insignificant. Thus, it seems that importance of institutional quality for tourism sector development is predominant in the long-run than in short-run.
- Contrarily to other individual components of institutional quality variables, the impact of government effectiveness is found to have negative impact on the international tourist inflow of India in the long run however, positive and insignificant in the short run.

In third objective the study proceeds by examining the impact of political instability and institutional quality on the foreign tourist arrivals of Jammu and Kashmir for the time period 1991-2017. In addition to these variables the study analyses the impact of economic development of Jammu and Kashmir on its foreign tourist arrivals. Ordinary Least Square and Fully Modified Ordinary Least Square methods of regression have been employed for checking the robustness of the results. The data on foreign tourist arrivals of Jammu and Kashmir (proxy for international tourism demand) has been obtained from MOT, GOI for the time period 1991-2017. The data on other independent variables was collected from varied sources for same time period (see chapter V for details).

- The results indicated that the impact of economic development of Jammu and Kashmir (proxied by PCNSDP) has positive impact on its foreign tourist arrivals. This indicates that economic development of the region also ensures the development of tourism sector.

- The impact of political instability on the foreign tourist arrivals of Jammu and Kashmir has been found to be negative and highly significant. This implies that political instability impedes the foreign tourist arrivals of the region. Moreover the results highlighted that political instability has deteriorated the image of Jammu and Kashmir and has portrayed its image as an unsafe and insecure tourist destination.
- The results also highlighted that the institutional environment of Jammu and Kashmir (proxied by ranking in crime rate) has also changed the foreign tourist arrivals of Jammu and Kashmir in a positive direction, however its coefficient being statically insignificant. This signifies that as compared to regional institutional quality (of a particular state or union territory), it is the institutional quality of the country as a whole that may be considered by tourists while deciding to visit a particular country.

To sum up, the main findings of the study reflected that in order to boost the international tourism demand and reap the potential benefits of tourism sector in India, the institutional quality of the country needs to be perked up. The study highlighted that eradicating the bureaucratic complexities, establishing rule of law, enhancing prolific regulatory quality, reducing the corruption at all levels and efficient government setup portray positive image of the country at the international level. The positive branding of the country creates a sense of security in the minds of international tourists regarding the country, thereby attracting huge tourist inflow towards it. The study also highlighted that social media, advertisements, cinema in India can prove to be quite effective by highlighting

that institutional environment of the country is always safeguarded. Additionally the improvement in the Human Development Index of the country also appeals the tourists at the international level. This is due to the perception of feeling protected in a country with proper sanitation, good health conditions, reduced communication gap and making the tourists feel comfortable with their lavishing treatment. Furthermore improvement and expansion in the trade relations with different countries of the world by India can prove to be successful in enlarging its tourism development base. The present study also holds that as the economic standard of countries improve; it has positive externality on the tourism sector development of India. So far as the foreign tourist arrivals of Jammu and Kashmir are concerned, the study highlighted that improvement in the infrastructural development and the ongoing political conditions are the basic requirements for the tourism sector development of the region.

6.4: Suggestions and policy implications

The findings of the study suggest that policy makers of the country need to relook at tourism development policies and take into consideration the range of factors that influence the tourism sector development in general and international demand for tourism in particular. Policy intervention in the identified priority areas will provide impetus to international tourism demand of the country. The suggestions and key areas of intervention for policy makers were highlighted by extending the theory of demand beyond neoclassical framework and are summarized as:

- The ‘previous visits’ of a tourist have positive and significant impact on the tourist inflow of India. Therefore, leisure and satisfaction obtained by tourists

from their previous trips motivates them to visit the country (India) again. Consequently, the stakeholders engaged with tourism sector should ensure to provide quality services to the visitors, so that they can visit the destination country again. Development of infrastructure with advanced conveniences should be focused to ensure better service quality. The hotel and transport management should focus not only on tangible items (accommodation and other infrastructural facilities) but also on intangible items (inter personal interactions). Besides, training programmes should be organised by the government at all levels particularly for those dealing with this sector (hoteliers, transporters) in order to reduce the communication gap and make the tourist feel to travel in a friendly environment. Also, there should be an adequate allocation of funds for the maintenance and preservation of cultural and natural heritage of our country. Better facilities and overall treatment towards the tourist in the host country not only motivates him to visit again but also proves to be a positive 'word-of-mouth' for others.

- Income of the tourist originating country has also positive and significant impact on tourist arrivals of India. An increase in income of the tourist originating countries is likely to have positive spill-over effects on Indian tourism development. This implies that for the tourism sector development of a country, global economic development through increase in global GDP should be ensured. All the means and models of global development and governance that target to enhance global standard of living need to be supported.

- The relative price level between the destination and tourist origin country has negative impact on the tourism demand of India. Therefore the policy makers of the nation should make certain that there should be a proper check on the persistent rise in price level, so that the tourists will not find it costly to visit the country. Moreover, a close vigilance should be kept on all tourism related activities (transportation, shopping, entry fee, food etc.) so that the tourists do not face price discrimination while demanding goods and services.
- Trade openness has positive impact on the international tourism demand of India, therefore the policy makers need to focus on strengthening the trade relations of India with different countries by signing different trade contracts. Achieving active membership in different economic alliances and trade blocks framed at the global level will boost the trade relations of India with rest of the world and that will in turn lead to the development of tourism. The potential tourism demand of India should be trapped and trade ties should be established particularly with the countries to whom, the Indian tourism does not appeal much.
- The findings of the study infer that human development of the host country is one of the key determinants of international tourism demand. Therefore, government should take all possible steps for improving the human development indices of the country. Focus on improving the level of educational attainment, health and sanitation and thereby improvement in overall standard of living is essential for the development of tourism sector. This helps to make the foreign tourists feel

protected and safe in a country with proper sanitation and good hygienic conditions.

- Special language and skill development training programmes for hoteliers, tourist guides, reception staff and other people engaged with tourism related activities should be conducted on regular basis to reduce the communication gap.
- Institutional quality and governance has assumed added importance for the development of tourism and economy. The ranking of the country in terms of institutional quality as published by various global watchdog agencies needs to be improved. The government and the policy makers of the nation should work to strengthen the institutional environment of the country to ensure a sustained rise in international tourist inflow of India. Initiatives should be taken for establishing rule of law, strengthening the regulatory quality of the bureaucratic officials, setting up legal structure which is free from any political pressure and thereby creating an image of positivity, transparency, security and prevalence of optimism in the country. The level of corruption, bribery and fraudulent actions at all levels of the working institutions should be minimised to reduce the travelling costs of the tourists. Besides, the time wasted for completion of different formalities (visa procedures etc.) should be minimized as much as possible through efficient regulatory quality. Besides being a determinant of a tourist's choice of destination, the level of institutional quality of the host countries can serve as a foundation for issuing tourist advisories in their countries of origin. Therefore institutional quality should be key concern in any country's tourism policy.

- The policy makers of the nation need to focus on long term planning of tourism sector. For developing the long term approach all the stake holders should be involved in order to adopt a clear vision for tourism sector. For the efficacy of tourism related policies and programmes, collaboration and consistency at different levels of government should be established while framing different tourism policies. New goals and objectives should be set up for the sustainability of tourism sector.
- Government should prioritise the use of media to promote tourism in India and to portray an image of normalcy within India and particularly for Jammu and Kashmir. Social media, advertisements, cinema and other media platforms should give priority to highlight that institutional environment of the country needs to be safeguarded. Similarly media houses should be used to broadcast international tourist fairs and festivals to attract huge international tourist inflow.
- Besides means and measures to facilitate the digital development of tourism sector should be prioritised. This includes widening the range of countries for issuing e-visa facilities, special passes for international travellers during unforeseen circumstances, advance online booking to restricted eco-tourist zones etc. For reducing the communication gap audio and video guides for tourists in different international languages should be facilitated.
- Jammu and Kashmir, the place bestowed with huge tourism potential has been the victim of the ongoing armed conflict in the region. Therefore the present study highlights that the major impetus for tourism development is the conflict

resolution that will minimise the killings and other acts of violence in the region. Conflict management is the key for economic development in general and tourism sector development in particular.

- Government should take all the possible steps to ensure the safety and security of the tourists and avoid unnecessary frisking and frequent identity checks that create inconvenience to the tourists. It depicts an image of conflict and war like situation. More importantly, Both India and Pakistan should revive the long pending peaceful dialogue process so that huge losses (human as well as economic) and suffering of people of Jammu and Kashmir associated with the ongoing political turmoil are minimised as much as possible.
- The institutional environment of the region should be improved. The police department should work in a proficient manner while dealing with various criminal activities like (theft, harassment) faced by the tourists.
- The infrastructural base of the tourist destination should be strengthened in the form of development of new health resorts, construction of new hotels, roads, better transport facilities and communication etc. The hoteliers, transporters, tourist guides and houseboat owners should be motivated to provide better quality services so that the tourists will visit the destination place again and again.
- The Department of Tourism, Jammu and Kashmir in collaboration with the local people should organise different tourism related events (handicraft exhibitions, snow festivals, shikara ride competitions etc.) in the peak tourism seasons to attract the tourists to J&K. Eco-tourism and Adventure tourism activities like

trekking, mountaineering, skiing, river rafting for which the place has huge potential should be promoted so as to reap the full benefits from this sector.

- Additionally, the Department of Tourism, Jammu and Kashmir should give a positive message to the world through social media about the beauty and attractiveness of various places in the region. A positive message not only about the beauty of various places of J&K, but the record of zero crimes against tourists should be promulgated throughout the world. The concerned government should give assurance that the security and safety of the tourists is always prioritised in the region.

6.5: Limitations of the Study

- The first limitation of the present study is on account of unavailability of data for longer periods of time. Since institutional quality is a recent phenomenon, therefore the data on longer time periods is not available so far as the case of India is concerned.
- The second limitation is that data on state wise institutional environment is not available. Consequently the present study has overlooked the impact of institutional quality on the tourist inflow of Indian states.
- The third limitation is on account of the dependent variable used as a proxy for international tourism demand, for which tourism receipts is a much better proxy. However data on country wise international tourism receipts is not available.
- Another limitation is that proxy used for institutional quality of Jammu and Kashmir is very narrow in scope and constitutes only one aspect of institutional

quality. As there is no variable available for the institutional quality of Indian states, therefore the study was bound to use the ranking of Indian states in crime rate as a proxy for institutional quality.

6.6: Scope of Future Research

- Taking into consideration the importance and potential of tourism industry, the scope of the future research includes extending the traditional theory of tourism demand. Beyond the traditional determinants, there is need to find out other important potential determinants of tourism demand. It also includes investigating the impact of aspects like political instability, terrorist attacks and criminal activities on both domestic as well as foreign tourist arrivals of the country.
- The future research should also focus on analysing the impact of institutional environment on the tourism demand of Indian states.
- Focus should be given on examining the impact of institutional environment on the tourism demand of India using different proxies for institutional quality and different time periods.
- Jammu and Kashmir being the most volatile region among the Indian states, therefore focus should be given on investigating the impact of factors like terrorist activities, suicidal attacks, police brutalities, huge armed deployment in portraying a negative image of Jammu and Kashmir as a tourist destination.

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