

## Summary and Conclusions

The number of tourists has been increasing over the years despite only partial success in the development efforts of this sector. Nepal's tourism industry has been seasonal in nature, but over time, with the increasing number of Asian tourists, this seasonality factor, although still strong, has been weakening. The length of stay has changed very little over almost 20 years of tourism history in Nepal. The average length of stay of tourists averages 9.3 nights per visit and when trekkers are excluded this average drops to 5.5 nights. The average per capita, per day tourist expenditure was estimated to be Rs 747 in 1987 and has not increased but, in fact, has declined by 1.4 per cent in real terms. The distribution pattern of the average per capita per day expenditure of tourists showed that tourists spent more than half (53%) of their money on lodging and food, 12 per cent on recreation, and about 14.7 per cent on shopping (handicrafts, curios and jewellery, carpets, garments, and books). The share of expenditure on accommodation declined slightly while that on food and beverage increased.

Gross earnings from tourism increased at an average annual growth rate of 24.1 per cent from 1975-1990 and tourism's share in the total foreign exchange income increased from nine per cent in 1974 to about 16 per cent in 1987-88, while its share in the total merchandise export more than trebled to about 60 per cent in 1989 from 19 per cent in 1973-74. The average contribution of tourism earnings to GDP increased from one per cent in 1974 to 3.4 per cent in 1990, with an average annual growth rate of about 2.3 per cent.

The number of hotels, rooms, and beds increased by 14.5, 13.1 and 12.9 per cent respectively between 1971 and 1989. The growth rate in accommodation outside Kathmandu was higher than inside Kathmandu. The total number of hotel beds in Kathmandu increased from 644 in 1971 to 6,759 in 1989. For Nepal, as a whole, the capacity increased from 728 beds in 1971 to 9,408 beds in 1989.

The annual average bed occupancy rate of all categories of hotels was 53 per cent in 1987 compared to 48 per cent in 1984. The highest occupancy rate was in five star hotels (67%) and the lowest in non-star hotels (48%). Also occupancy rates have generally been highest in October with the lowest being in July (Table 10).

Altogether 11,174 people are directly employed in the tourism sector of which 53 per cent were found to be employed in hotels and the rest in travel and trekking agencies and airlines. The hotel industry employed the largest number of persons (5,912), followed by airlines (2,738), and the carpet industry (2,551) in 1987, although this is believed to be a gross underestimate. One tourist bed in Nepal creates less than two jobs, which is fairly low compared to other developing countries. This is partly because low-spending tourists constitute about 67 per cent of all tourists and most of these are catered for by non-star hotels. About 39 per cent of the total earnings of the hotel industry constitute foreign currency and the direct foreign exchange leakage is about 27 per cent.

The average size of investment in the hotel industry has been around Rs 137 thousand per room and Rs 72 thousand per bed. The tourism sector is relatively more capital intensive than the tourism-related sectors. The average capital requirement per unit of labour is Rs 213.5 and Rs 112.4 thousand in the airline and hotel industries respectively, whereas the corresponding figures for the carpet and handicraft industries are about Rs 13.2 and Rs 14 thousand respectively.

The average income generated per employee in the hotel industry has been about Rs 108 thousand. The income generated per unit of labour is the highest in the airlines and travel agencies and the lowest in the handicraft industry, followed by the carpet industry and restaurants.

Based on the values of the output multiplier, the tourism-related sectors have a stronger link with the domestic economy than with the tourism sector as a whole.

Imports of goods and services for the tourism sector are relatively higher than those for other tourist-related sectors. The ratio of import content for the tourism sector is about 62.2 per cent compared to 55.3 per cent in tourism-related sectors. When only the direct effects of tourist expenditure on import are considered, the import content of the tourism sector is about 29.74 per cent compared to 27 per cent in the tourism-related sectors.

This clearly indicates the presence of a large import content, particularly in the tourism sector. This means a major chunk of the foreign exchange earned by the tourism sector actually leaks out for importing goods and services to be consumed by the tourism sector itself. The substantial value of this import leakage also implies that the domestic production of goods and services consumed by the tourism sector has no close substitutes produced in the domestic economy, i.e., there is a severe lack of import-substituting industries. Import leakages turn out to be much higher when domestic supply constraints are taken into account. Under supply constraints, the imports as a per cent of total tourist receipts increased to about 36 per cent from 26 per cent under unconstrained conditions, an increment of about 39 per cent.

For every hundred thousand rupees of tourist expenditure, employment generation is higher in the tourism-related sectors (3.92 manyears) than in the tourism sector (2.78 manyears). Within the tourism sector, the employment multiplier varies widely, the highest being in restaurants and trekking agencies and the lowest in airlines. Similarly, the tourism sector has a relatively lower income multiplier than other export sectors. The value of the income multiplier in the tourism sector, however, increases further with the inclusion of induced effect, indicating the heavy dependence of the Nepalese economy on agriculture. Again if the domestic capacity constraints are taken into account, the multiplier effects decrease. The output, income, and employment multipliers of tourist expenditure estimated under the limited supplying capacity of the domestic economy were found to be less by about 12, 14, and 22 per cent respectively than those estimated under no supply constraints. Clearly the employment effect of tourist expenditure is more sensitive to the capacity of the domestic economy than the income and output multipliers.

On the whole, the real impact of tourism was found to be only 86 per cent of the nominal impact (i.e., impact estimated in an unconstrained situation). A greater proportion of the surplus generated by the tourism sector has actually flown out due to the presence of capacity constraints on the domestic economy. The tourism sector has been and will continue to be an important sector in the Nepalese economy for a long time to come.

Although the number of tourists visiting the country has increased considerably over the past two decades, the number of stays by tourist nights of and per tourist real expenditure has not increased. As a matter of fact the real expenditure has in fact fallen over the this period. Furthermore, the import leakages from this sector are also high; which also implies the low level of development of import substitution industries in the economy. Clearly, although growth in this sector is desirable, it becomes important to first identify how this growth should be made conducive. Should this growth continue as it has in the past two decades, i.e., only through attracting more tourists? Growth can also be achieved if tourist nights can be increased. Third, growth is possible if tourists spend more in real terms. And fourth, growth is possible if import leakages can be minimised by encouraging the development of viable, domestic import-substituting industries.

The four broad ways to achieve growth in the tourism industry identified above are not mutually exclusive. If each way or method can supplement the other then the growth rates in this industry can be

expected to be high, and the implications in the overall economy through the multiplier, direct, indirect, and induced effects can also be significant. This four-pronged growth strategy is, perhaps, what is most desirable.

The rapid growth in the tourism sector should, however, not be overlooked, since it can have negative implications on the environment, especially in rural areas. Already a large number of tourists visit rural areas for trekking, and some areas already face huge firewood deficits and have experienced landscape changes as well as other negative effects that have had detrimental effects on the environment (Byers and Banskota 1992; Banskota and Upadhyay 1991; Sharma 1989). The income and employment effects of trekking tourism, as well as mountaineering tourism, are significant. As growth in this sector occurs, it can be expected to have more income and employment effects in rural areas as well (Banskota and Upadhyay 1991). Growth strategy that also has a large spillover effect throughout rural Nepal should undoubtedly be a major factor in encouraging growth in this sector. The negative effects associated with tourism in rural areas associated with tourism should not be seen as a factor in discouraging tourism in such areas. Appropriate actions to combat the negative effects should be devised and enforced.

Therefore, placing emphasis only on the tourism sector is not sufficient to control import leakages, or to generate foreign exchange, income, and employment; it is also necessary to develop other sectors in the economy, especially those that have a relatively low surplus capacity and sectors which have a fairly high linkage with the tourism sector. Clearly, despite the various plans and policies introduced so far by the Government regarding tourism development, there still appears to be lack of long-term integrated policies and plans that encompass all aspects of tourism development in the country.