



IMPACT OF DEMONETIZATION ON INBOUND TOURISM OF INDIA

Dr. Anand Kumar

Associate Professor, Department of Economics, College of Vocational Studies,
University of Delhi, Delhi
anand.kumar@cvs.du.ac.in

ABSTRACT

It was 8th November, 2016 when a historic decision of demonetization was taken by the government of India under the leadership of P.M. Modi. It suddenly created a huge chaos all over the economy. There was a sudden short run cash crisis in all sectors of the economy, be it agriculture, manufacturing or service. Everyone had to manage long queues to get a maximum of Rs.2000 as daily cash withdrawal limits which was certainly a meagre amount by any standard. There was different degree of short run impacts of such a bold step to correct the many evils prevailing in the economy, such as parallel economy (black money), rampant corruption, etc., on various sectors. Though it has a potential of far reaching good impacts on the economy but started with a bad note. One of the badly hit industries was tourism especially the inbound tourism for some time. The sudden shortage of cash affected tourist activity adversely. Tour agencies had to face huge problem since there was no substitute of cash mainly at monuments and other tourist attractions. Agencies handling a group of 15-20 tourists require a huge sum of money in cash for the purchase of entry tickets to visit historical, religious and other tourist attractions. The major tourist circuits in India, such as Golden triangle (covering Delhi, Agra and Jaipur) witnessed a sharp fall in inbound tourists. It was not even possible for agencies to pay digitally for fuel, toll tax and other en route services. Some of the agencies even went up to rescheduling their inbound activities.

My paper will analyze detailed impact of demonetization on various tourism activities, how was it dealt with and how adversely it affected the inbound tourism.

Keywords: Demonetization, Black Money, Golden Triangle, Inbound tourism, Tourist Attraction.

INTRODUCTION

The hospitality industry is one of the most dynamic industry of our country, especially when it comes to pricing and demand. Demonetization has significantly affected the



travel and tourism industry of India. It was the onset of winter travel season when the unexpected storm of demonetization hit the Indian economy. People, be it Indian or foreigner both have curtailed overseas travel and instead preferred to explore the local destinations. Getting money from banks and ATMs remained a problem for period of almost six months. The travel and Tourism industry really faced the tough time. Mainly the foreign trips organized by big travel agencies and tour operators requiring cash transactions were negatively affected due to the shortage of cash at hotels, transportation, entry gates of various attractions, restaurants, petrol pumps, etc. Hospitality industry was brutally affected by demonetization, as the hotels had lost their large number of pay-in-cash-only customers due to unexpected crunch of cash. Around 60 percent drop in hotel bookings was reported in the initial days of demonetization. In addition to this, high-end restaurants also faced the harsh change as people were shifting towards pocket-friendly eateries from fine-dining.

During the days of demonetization, the condition of the Indian citizens was worse, even if they were rich in terms of money. Many travelers deferred their travel plans due to absence of liquidity of funds in the economy. Mostly the travelers gave priority to their bank work over travel, due to government's strict deadlines on cash deposit and currency exchange. The currency exchange has been so tough that Indian nationals even felt like foreigners in their own country while standing at long queues outside their banks.

Travelers to India had faced a lot of problems during their trips as these tourists are most likely to use cash, rather than cards. Exchange of currency became a tough task due to shortage of currency. It was not convenient for some travelers to use their credit or debit cards for transactions due to charges levied by their home banks. Many travelers complained that their cards are not eligible for international transactions as well. In the wake of such circumstances, the wealthy and luxury-driven foreign travelers either shifted or cancelled their tours to India. It resulted into a severe transformation 'from International tourism to Domestic tourism' which negatively affected the inbound tourism of our country.

But the negative impact of demonetization remained for the short period only. Soon the travelers managed to overcome this shock and get on to digital mode of payment for settling their transactions. Fortunately, today we have innovatively priced



packages that are catering the needs of tourists and has ability to perfectly survive even at the time of stress. This has been possible because of increasing use of digital mode of payment between customers and service providers. Moreover, this historic decision taken by government of India has no doubt resulted into far reaching positive impacts on the tourism industry of our economy. We can observe that a shift towards digital money is making transactions safer for travelers. This ease of handling plastic money is directed towards constructing a cleaner and safer India for both domestic as well as foreigner travelers.

LITERATURE REVIEW

The study of existing descriptions on demonetization and its impact on India's tourism industry suggest that although there were many side effects of this notable decision of Modi Government but most of them were temporary. In the dye coarse of time, pendulum again became normal and it was much easier for travelers to settle their transactions digitally.

In this context, **Manheer Singh Sethi (2017)**, co-founder, Travkart.com opined that "Gradually, after 5 months, business is picking up and customers are expressing their interest in weekend and short-haul travel. With regulations and taxation issues streamlined, the industry is showing positive signs of growth and people are comfortable utilizing the banking channels and e-wallets for transactions."

Anuradha Goswami, Arti Mudaliar & Darshan Subherwal (2017) stated in their article that demonetization has affected almost every sector of Indian economy. The basic idea of government for bringing demonetization in picture was to prompt the transition of economy from cash to less cash economy and to combat inflation but the long term objective was to bring all business transactions under the ambit of banking system.

Thomas Cook, one of the leading tour operator in India saw a strong uptake for long haul destinations like Europe and Canada after demonetization. Rajeev Kale, president and country head, leisure, travel and MICE said, we are seeing cruise holidays growing across segments."

Sujatha (2016), quoted in her article that this step has given too much pain to the common man and so many sectors in the country have been affected by the failure to



replace the old currencies in adequate measures. The fallout of the Demonetization now looks to have spilled over into the tourism and hospitality business as well.

Balamurugan S. and Hemalatha B.K. (2016), the study focused on highlighting the long term & short term effect of demonetization on the various organized and unorganized sectors depending upon the extent of cash availability, credit availability, spending & government finances. They stated that medium and large scale businesses are unaffected by such ban where as small scale establishments were deeply affected by demonetization.

CD Equisearch Pvt. Ltd (2017), in this article, they have concentrated on effects of demonetization on various sectors. The move shed a dark shadow on the increasing of tourism and hospitality sector in India. These sectors are facing a tough time. November to January months generally witness the maximum number of international tourist's inflow in India, due to ban there has been a 65% drop in Christmas & New Year bookings. Cash crunch has adversely affected the liquidity of currency exchanges in India.

Ramphul Ohlan (2017), stated in his research note that the resilience of Indian tourism industry to demonetization is confirmed by investigating the stationary status of international tourist arrivals series using newly developed break-point unit root tests on monthly data over the period of 2003 to 2017. The most significant finding of the study is that the series of tourist arrivals to India is stationary and no structural break is presented correspondent to recent demonetization.

OBJECTIVES OF THE STUDY

1. To analyze whether demonetization has affected the foreign exchange earnings and inbound tourism of India.
2. To identify the view of different stakeholders about November 2016, demonetization of India.
3. To understand the hardships faced by tourists as well as service providers in hospitality industry.



NEED FOR THE STUDY

The above review of literature reveals that number of studies have been undertaken by scholars and organizations to understand the impact of demonetization on different sectors of Indian economy including tourism industry, public sector, banking sector, black economy, corruption, stock market, service sector and so on. Many newspapers and TV shows revealed the negative impact of demonetization on various sectors. Therefore, the present study has been conducted to understand the opinion of different stakeholders of tourism industry like tourists, travel agents, tour operators, hoteliers, etc. about the way demonetization affected the booming tourism industry of India.

RESEARCH METHODOLOGY

- The relevant data for the study has been collected from both primary and secondary sources.
- Primary data was collected on the spot through questionnaires, interviewing tourists, government officials and other stakeholders like travel agents, tour operators, tourist guides and kiosk center. A total of 220 responses were collected from Delhi, Agra and Jaipur. The survey lasted for the duration of two months viz. 15th November, 2016 to 15th January, 2017.
- The questionnaire was designed to take the opinion of different stakeholders. Four main statements on the questionnaire are stated below:
 1. Demonetization hardly hit the Indian Tourism Industry.
 2. Demonetization moderately hit the Indian Tourism Industry.
 3. Demonetization did not hit the Indian Tourism Industry.
 4. Demonetization helped the Indian Tourism Industry.
- Another survey was conducted after demonetization (from 7th April, 2017 to 20th April 2017) through telephone to understand impact on tourism industry in the post demonetization period.
- Secondary data were collected through websites, books, journals, tourist brochures, annual reports of Department of Tourism etc. Along with this, research done by other scholars were also taken into consideration.



FINDINGS AND DISCUSSIONS

Demonetization of ₹500 and ₹1000 currency notes was the step towards digitalization and correction of evils such as parallel economy, corruption etc. Following two surveys were conducted to realize the impact of demonetization on Indian tourism industry, especially on inbound tourism.

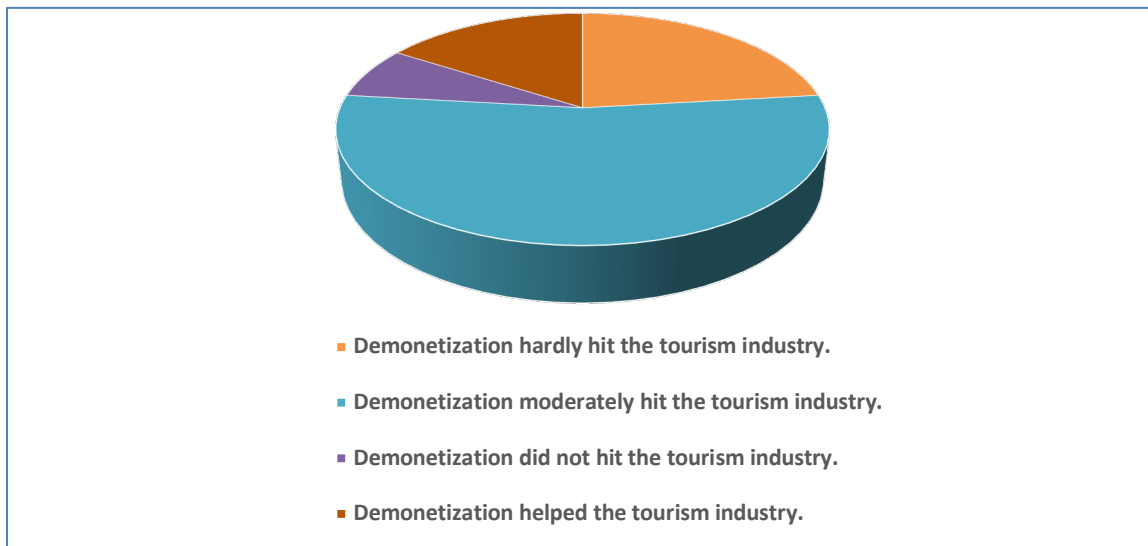
Survey 1: To understand the impact of demonetization on inbound tourism of India, 220 stakeholders of tourism industry were surveyed and their responses are shown in Table No. 1 and Figure No.1.

Table 1: Responses of different stakeholders

Question	Agreement	Disagreement	Total
Demonetization hardly hit the tourism industry.	51	169	220
Demonetization moderately hit the tourism industry.	118	102	220
Demonetization did not hit the tourism industry.	16	204	220
Demonetization helped the tourism industry.	35	185	220

Source: Author's own source.

Figure 1: Responses of different stakeholders



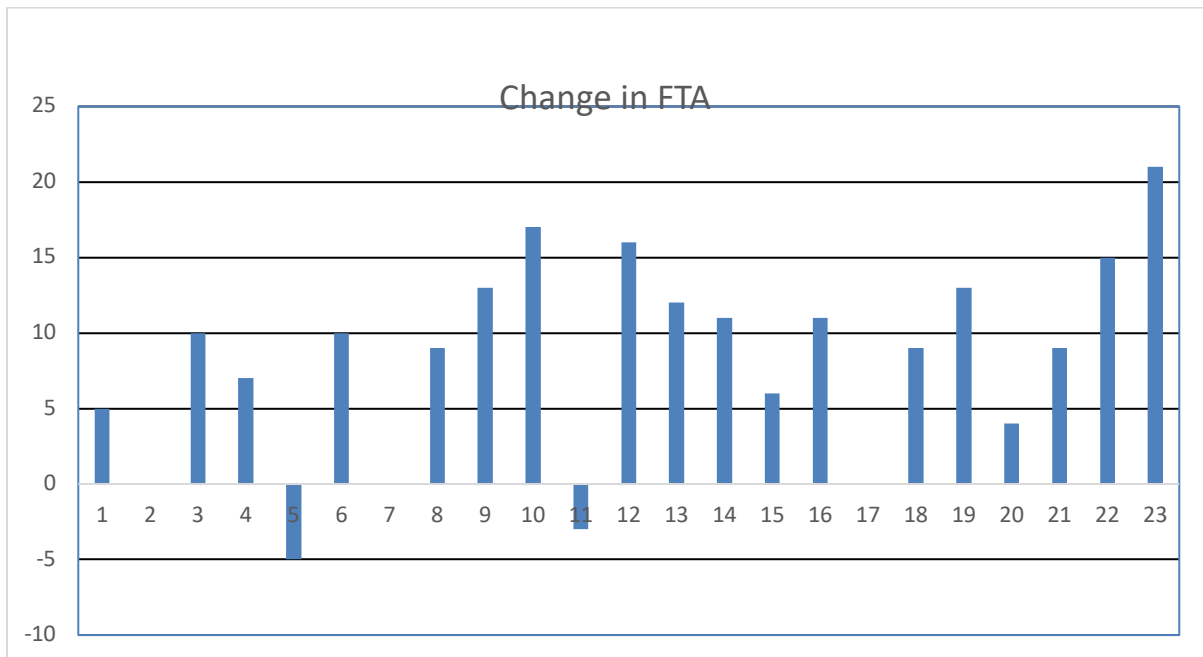
Source: Author's own source.

It is evident from the above table and pie chart that majority of the respondents (around 54%) agreed on the fact that demonetization hit the tourism industry moderately. Around 23% respondents replied that demonetization hit the tourism industry hardly, 16% respondents believed that demonetization has in fact helped the tourism in the form of ease in making payments through plastic money. Only 7% of respondents believed that demonetization did not affected tourism industry in any way. Since the survey was conducted in the initial days of demonetization so, we are in a position to draw an inference that demonetization hit the tourism industry moderately in the initial months.

Survey 2: A telephone survey was conducted in the post demonetization period to identify the impact of demonetization on inbound tourism of India. For this purpose, we took a sample of 70 hoteliers and travel agents out of which only 23 responded my question i.e. "what percentage change in foreign tourist's arrival (FTA) has taken place after demonetization?" Their responses are as follows:

5,0,10,7, -5,10,0,9,13,17, -3,16,12,11,6,11,0,9,13,4,9,15,21.

Figure 2: Responses of 23 hoteliers and travel agents surveyed



Source: Author's own source.

Test of hypothesis: Right tail t-test of collected sample.

H₀: There is no change in Foreign Tourist Arrival in India after demonetization.

H_A: Foreign Tourist Arrival in India has increased after demonetization.

To test one tailed hypothesis regarding change in FTA after demonetization, above data was utilized. Since sample size is small i.e. 23 which is less than 30 and population standard deviation is also unknown so, we will perform one tailed t-test at 0.01 level of significance.

Different scores calculated:

Sample size (N): 23

Sample Mean (\bar{x}): 8.26087

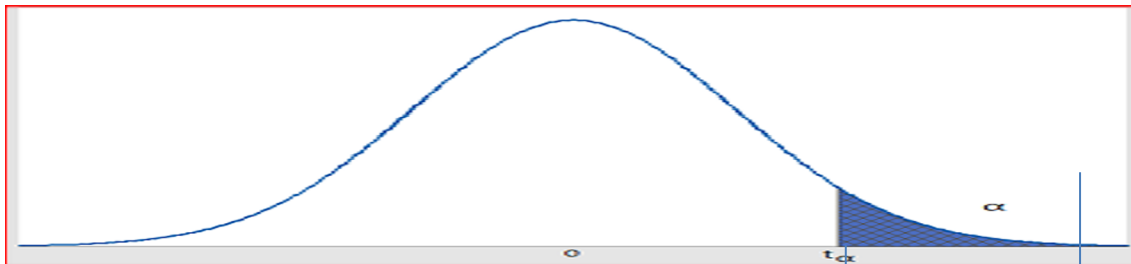
Population mean (μ): 0

Sample Standard Deviation (s): 6.63474

Degree of freedom: 22

Critical Value (calculated from t- table): 2.508

Figure 3: t- curve



Source: Author's own source.

2.508

5.9714

T- Value Calculation:

$$t = [(\bar{x} - \mu) * \sqrt{n}] \div S$$

$$t = [(8.26087 - 0) * \sqrt{23}] \div 6.63474$$

$$t = 5.9714$$

The calculated value of t is 5.9714 which is more than critical value so, null hypothesis is rejected at 1% level of significance. Hence, we can conclude that Foreign Tourist Arrival in India has significantly increased in post demonetization period as compared to pre demonetization period.

The brunt faced by tourism Industry in the initial days of demonetization:

With shortage of cash diminishing consumer confidence, the Indian tourism industry witnessed a significant depression with a little enthusiasm for Christmas and New Year holidays at most of the popular destinations. According to the industry insiders and the survey of Associated Chambers of Commerce of India (ASSOCHAM), a shocking fall of about 60-65% in domestic bookings and around 40-45% fall in international bookings has brought the travel and tourism and hospitality industry to halt.

Although the tourism season begins in Indian sub-continent around October-November but it picks up around Christmas and New Year, with a huge inflow of tourists in popular destinations like Jaipur, Jodhpur, Madhya Pradesh, Agra, Ahmedabad, Uttarakhand, Goa, Kerala, Karnataka etc. while some enthusiasts too head for the hills for snowfall, reveals the associated chamber of commerce and industry of India (ASSOCHAM).



Moreover, the drop in bookings lowered the rates of hotels and airlines tickets to the extent of 30-35% as compared to the similar months of the previous years. While the travel trade including airlines, hotels, crews and railways who have mostly shifted towards online booking system saw the negative impacts largely because of the shortage of cash with customers. Most of the self-employed people witnessed a sharp decline in earnings while professionals employed in the organized sectors of economy were also affected psychologically due to unavailability of cash in Indian economy, said D S Rawat, Secretary General ASSOCHAM.

The flow of tourists coming under organized packages and groups were not affected, but most of those who do not plan their stay in advance have either cancelled their trips or shifted to a future date. The tourists visiting various states of India, especially foreigners complained the difficulties faced while exchanging their currencies.

These currency crises significantly hit the tourism season of India. The number of travelers in organized trips were not affected much because their hotels and taxis being booked in advance. But the occupancy rate of hotel rooms and airlines have come down to a large number. The similar impact is visible on taxi operators, restaurants, small vendors, etc. reveals the ASSOCHAM findings.

Impact of Demonetization on Foreign Tourists:

From Kashmir to Kanyakumari, with ATMs running out of cash and Banks being overcrowded by people from early mornings to late in the night, the country exactly came to a halt. India came into a dire cash crunch- a situation that was not even imagined previously. This put the entire nation into a state of bedlam wherein citizens were facing hardships to get new currency and deposit the old notes. The sudden announcement took an unparalleled charge not just on Indian citizens and their day-to-day expenses but also on travelers and tourists from all over the world visiting India. Since most tourists travel with some amount of cash, mostly in denominations of 500's and 1000's because they are easy to carry, the Government's sudden move put them in a state of absolute confusion and panic. The budget tourists who had chosen India as their vacation spot in order to enjoy the "real Indian experience" of using public transport or eating from local eateries by spending their life savings for making the trip to Indian destinations.



November to January are the months in which India witness maximum inflow of international tourists visiting Delhi, Maharashtra, Gujarat, Karnataka, Rajasthan, U.P., etc. A sudden cash crunch adversely affected the liquidity of currency exchanges in the economy.

The foreign tourists in India were having a tough time while travelling the country with obsolete currency notes in hand. Unlike Indian citizens, they had no opportunity to borrow from someone and were entirely dependent on cash to pay for their travel expenses. There was no deficiency of local shops who were taking unfair advantage of the situation by selling goods at high price and accepting foreign exchange in return. The trouble was that mostly foreign travelers remain much dependent on cash than plastic money or traveler cheque. This demonetization drill hit them quite hard.

The Reserve Bank of India permitted foreign tourists to exchange foreign currency for Indian notes up to a limit of Rs5,000 per week which is equivalent to US\$73. This limit set by the government was much lower than what tourists normally ask for at the airport. Foreigners were confused whether their notes can be exchanged at Indian branches of foreign banks where they are customers.

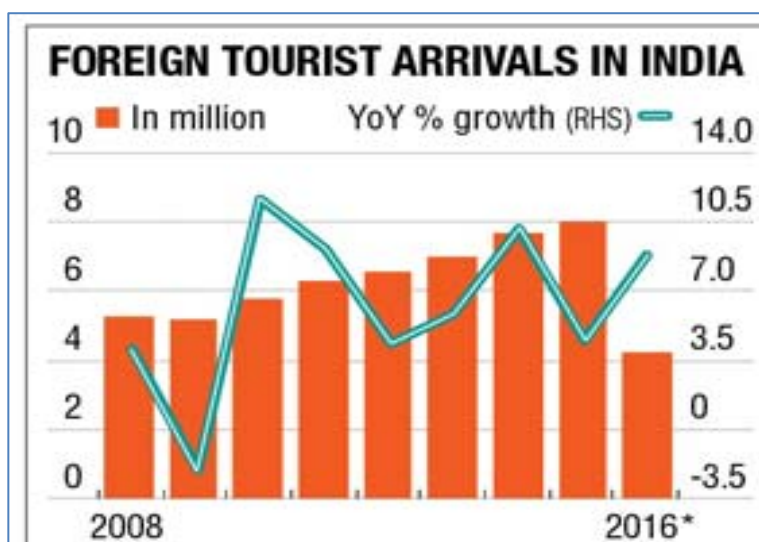
According to a report in Hindustan Times, the leading newspaper of India, some foreign travelers were forced to busk in Indian streets to raise money. They were seen performing at various places like Pushkar, Agra, Jaipur, etc. seeking help from the locals by displaying posters. Example, "As a last resort, we took alternative to perform on the streets of India to get some help from locals so that we can at least reach Delhi to ask help from our embassies," said Jayden, a tourist from Australia, in an interview to the newspaper. The tourists stated that they were forced to do so since they were unable to withdraw money from their bank accounts due to the ATMs running out of cash. "The situation without any Indian currency at all was really tough. People were understanding, and even in some places, they took British pounds from us in order to be able to get over this problem. But, it really is quite a difficulty. We are entirely reliable on credit cards" said another tourist.

The tourists who were leaving India during the period of demonetization were also facing problems while re-exchanging the remaining Indian currency into their home currency. The situation was particularly bad for those who were carrying the outdated Rs500 and Rs1,000 notes. Although some banks had a separate queue for foreign



tourists, but still they were facing hard time while withdrawing money from their accounts. Adding to this many travelers were unaware of the government policies and their details. Most badly hit were those who arrived India on November 8 to attend the famous Pushkar fair and found themselves virtually bankrupt. In the wake of demonetization, governments of different countries had issued a travel advisory warning their citizens regarding recent policy changes in India which proved fatal for Indian tourism as it reduced our FTA (Foreign Tourist Arrival).

Figure 4: Fall in growth rate of FTA in India in 2016



Source: www.dnaindia.com

It is clearly visible in the above figure that demonetization has significantly affected the inbound tourism of India by reducing growth rate of Foreign Tourist arrival.

Adverse Impact on hotels and Restaurants:

The hotels and restaurants in India suffered a lot in the tourism industry as there was a large fall in bookings during the days of demonetization. Most of the bookings which are paid at the venue were cancelled due to the monetary and business crunch. The handful of bookings that came were from those tourists who had paid their trips in advance other travelers either cancelled or postponed their bookings. Even the initiatives and offers for online bookings and the discounts on availing online bookings failed to make any significant effect on prevailing situation and continued to be at the lowest in the country. Around 60% fall in hotel bookings has was reported initially.



Restaurants had a tough time with venues facing empty evenings for number of days. The street food stalls were the ones who were affected the most as they had no means of accepting plastic money or online payments which drastically reduced their sales.

The Positive impact of the Demonetization Story on Tourism Industry:

Initially the things got little dull but there is definitely a positive side of demonetization. One of the biggest discrimination against foreign tourists in India is that they are charged curiously higher rates as compared to their Indian counterparts and they often feel cheated or maltreated. Most of the auto drivers who charge unreasonably higher rates to tourist guides, the foreign tourist is often an easy victim for them to be cheated. This fraudulent bias in prices is perhaps the biggest hindrance in the path of Indian Tourism Industry. Due to the shortage of cash in economy, nearly all service providers in hospitality industry were forced to give up illegal practices including that of charging ludicrously high rates from foreign travelers. With payments being made online prior to travel or any activity, will discourage the malpractice of charging unreasonably higher rates. This will create a more comfortable and more credible environment for all the tourists in India and will help the tourism industry to flourish in the coming years. This will also be a breath of relief for those tourist who has felt stuck in the web of lies and dishonesty. With the tourism industry flourishing, it will open up new venues for employment generation and create opportunities for self-employment. Small time players in the industry including vendors will feel more integrated in the long run, being compelled to create an online presence in order to survive.

Conclusion

In the initial days of demonetization, the entire tourism industry was affected badly. A drop was registered in the hotels and airline bookings in the first week after the sudden shock. The premium segment of hotel however, has not seen much impact since bookings are mostly done in advance through online mode. The hit was mostly restricted to the unorganized sector. Hotel and travel bookings succeeded in making a slow revival since the scheme has been announced. International travel was also negatively impacted as foreign exchange usage in abroad is mostly done in cash.

A significant adverse impact has also been observed in the aviation sector. Some airlines have seen their bookings going down by approx. 16% in each week following demonetization compared to the weeks prior to demonetization. Heavy decline in sales



have forced most airlines and hotels to offer heavy discounts of around 30%-35% in their airfare even in the peak season when the final revenue and traffic numbers are released. Footfall of international tourists in India was reduced by 40%-45%. Business jet operators announced that several charter flights have been cancelled as payments are often made in cash.

The basic idea of government was to promote the transition of economy from cash driven to a less cash economy, removing the parallel economy and bringing all the business transactions under the umbrella of banking system in the long run. This historic decision taken by Modi Government will surely fetch results in long run by making transactions easier and safer.

Recommendations

- There is a need to increase use traveler's cheques for payments rather than dealing in cash to avoid problems in future.
- Internet services connectivity should be improvised in every part of our country for better cashless transaction through mobile and other modes of e-banking.
- All banks must have separate lounges for foreigners to exchange currency.
- E-wallets and other online payment modes should be made more secure and safe.
- A strict monitoring system for service providers from bottom to top should be framed so that unfair practices against foreign travelers can be reduced.
- Banking infrastructure to be made available in rural areas to serve residents as well as rural tourism.
- Swiping machines and other online payment methods to be made available in each outlet of the economy.
- ATMs to have cash availability every time so that travelers and locals need not to roam unnecessarily in search of cash.

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