

# Cash less Economy and Tourism Industry Opportunities and Challenges

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## Abstract

*This study examines the cashless economic system so as to assess the relationship between cashless economy and its impact on tourism Industry. On 8 November, 2016, Honourable Prime Minister of India, Narendra Modi shocked the country by withdrawing high denomination notes INR 500 and INR 1000 as legal tenders. The move was made with an intention to unearth the black money stashed by tax evaders, drug cartels, traffickers and other illegal entities. The fallout of the demonetisation now looks to have spilled over into the tourism Industry. New note of 500 and 2000 notes were introduced but the move has caused much pain to the travellers and tourism industry, this sector has been affected by the failure to replace the old currencies in adequate measure. The biggest brunt was borne by tourists, especially international ones, who had either recently exchanged currency or had landed the next day and had no way of exchanging the redundant cash without a valid bank account. This paper dwells on the meaning of cashless economy, impact of cashless economy on tourism industry, also explains Tourism industry scenario and highlights the benefits of cashless economy and its challenges. The authors have given some recommendations for proper implementation of the cashless economy policy by the Government of India.*

**Keywords:** Cashless Economy, Demonetisation, Tourism Industry, Travel Agencies

## Introduction

*During the 1990's, the growing popularity of electronic banking made use of non-cash transactions and settlements popular among the residents of some of the most technologically advanced nations of the world. Digital payment methods became well established in countries across the world by the 2010's. Online tools like PayPal, NFC payments by Smartphone or electronic cards, digital wallet systems operated by Apple, electronic banking and bill payment systems helped people make cashless transactions online. Some countries even started to set limits on transaction values that can be used for non-electronic payments to encourage cashless transactions. ("Top Countries Using," 2016) Let us first understand what does cashless economy means? A Cashless Economy is one in which all the transactions are done through*

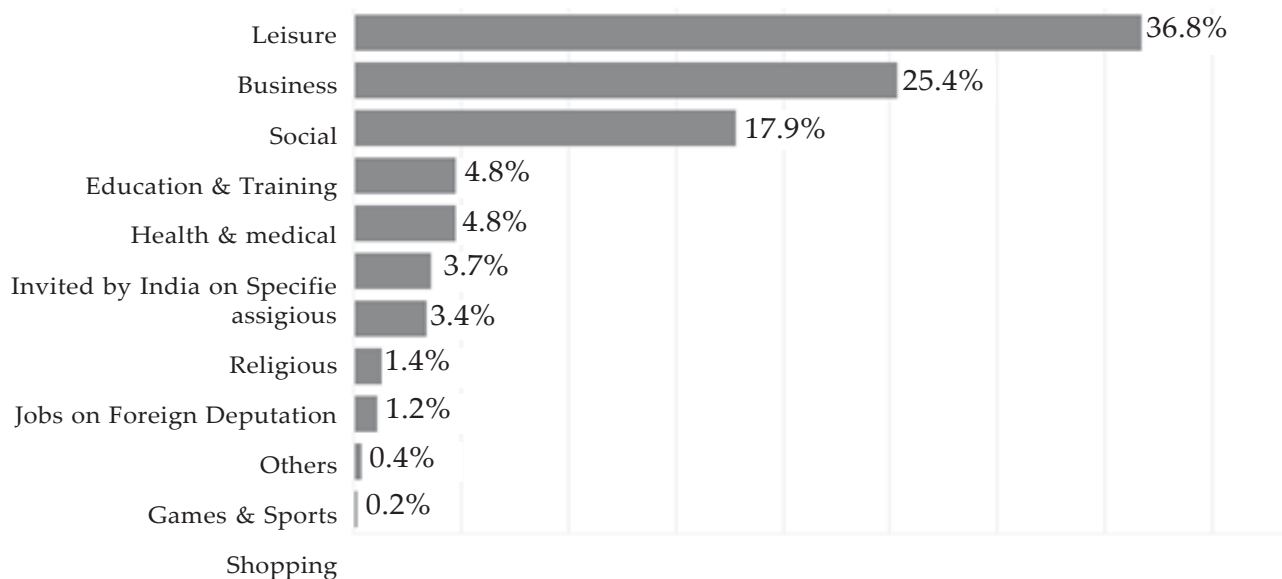
*electronic media channels such as debit and credit cards, electronic clearing, payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS). After the news of demonetization, the online payment services went into advertising overdrive, bombarding the media with ads to move onto online platforms. Demonetisation has shed its gloomy shadow on the booming tourism and hospitality industry in India. The onset of the winter travel season has been stymied by the unexpected storm of demonetisation. People have curtailed overseas travel and instead are exploring various local tourist destinations (Arya,2017). The Central Government's bold surgical strike on black money on November 8, more or less paralysed the country and within minutes, mayhem was widespread. The public made a beeline for the ATMs and the following day saw a chaotic time for the banks. Travel agents too, especially the small ones, were hit majorly. However, the biggest brunt was borne by tourists, especially international ones, who had either recently exchanged currency or had landed the next day and had no way of exchanging the redundant cash without a valid bank account. But what must be highlighted is the fact that for a move that may have been decided earlier, provisions should have been in place to hinder the inconvenience caused within seconds of implementation.*

### Impact of Cashless Economy on Tourism Industry

In India, the peak tourism season lasts from October to January. While most of the domestic travellers visit Rajasthan, Maharashtra, Gujarat and Karnataka in October and November, hundreds of thousands of pilgrims visit shrines such as Sabarimala in December. The yearend party seekers look forward to a break in Goa and Maharashtra in late December and early

January. Most of these tourist destinations have seen a drastic reduction in the bookings this year. According to a recent study by the Associated Chambers of Commerce & Industry of India, there has been a 65 percent drop in Christmas and New Year vacation bookings this year ("Assocham in the,"2016). Tourists who usually look to spend their vacation in Uttarakhand, Madhya Pradesh and Kerala have decided to stay back at home instead of taking their annual break. Following the travel advisory

#### Foreign tourists, By Purpose Of Travel

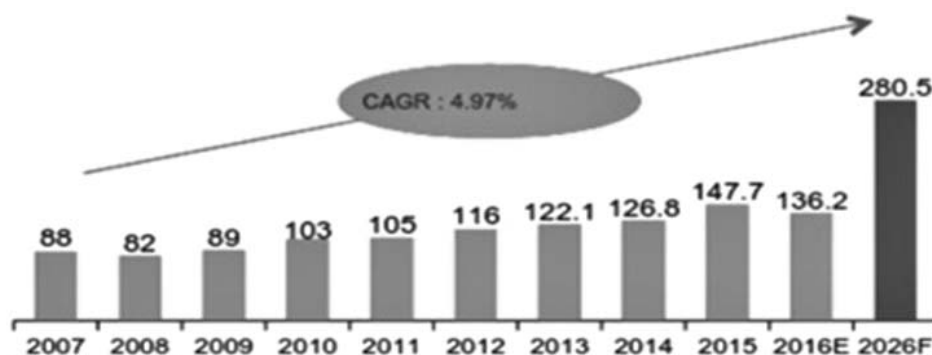


issued by most countries following the demonetisation, international travel to India has also dropped by 45 percent. November till January months witness the maximum inflow of international tourists to India. Cash crunch has adversely affected the liquidity of currency exchanges in the country leading to such a situation (Sujatha, 2016).

### Ministry of Tourism Report 2010

Doesn't an industry that contributes 6.3 per cent to GDP and is expected to rise by 7.5 per cent p.a. by 2026, deserve more? While temporary, the impact it has had on the industry is distressing and would probably leave countless with upsetting memories of the experience. At 2.8 percent, the travel and tourism sector in India

### Travel and Tourism's Total Contribution To GDP (US\$ Billion)



Source: World Travel & Tourism Council's Economic Impact 2015. News Article. Techsci Research: Note: E-Estimated; The Definition of direct, indirect and Induces Contribution is Specified in the Appendix

grew faster last year than it did worldwide (2.3 percent). As quoted earlier it contributed to 6.3 percent of the country's gross domestic product including direct, indirect and induced contributions and translated to Rs 8.3 lakh crore in 2015, according to this 2016 report by the World Trade And Tourism Council (WTTC), a forum for the travel and tourism industry (WTTC, 2016). Tourism is also a labour-intensive sector, creating 78 jobs for every million rupees invested, according to tourism ministry data. The agriculture sector creates 45 jobs for the same investment, and manufacturing, only 18. Ever since 2009, the share of tourism in employment has consistently been over 10% of India's workforce of 500 million workers. This means that the sector employs almost 50 million people more than the population of Colombia. In 2015, the number of foreign tourists visiting India was over 8 million, and earned the country foreign

exchange earnings of almost Rs 1.35 lakh crore, a growth of 9.6 percent over 2014, according to tourism ministry data. RBI regulations also declared that foreign tourists could only exchange currency worth upto Rs 5,000 a week until December 15, 2016. However, before the move, foreign passport holders were able to exchange as much as \$3,000 (Rs 200,000). This means that visiting foreigners can now only exchange 2.5% of what they could before Demonetisation. Tourists were, however, allowed to use a prepaid instrument in exchange for foreign currency tendered. But this does not help those who have run out of foreign currency. Tourists leaving the country post-demonetisation have been unable to change more than Rs 5,000 into their own currency, although the average demand for re-encashment is Rs 20,400 (Patil, 2016).

The sector's total contribution to GDP was expected to increase to US\$ 136.2 billion by the end of 2016 and is expected to further grow to US\$ 280.5 billion by 2026. The total contribution of travel and tourism to Indian GDP is forecasted to increase by 4.97 per cent per annum to US\$ 280.5 billion by 2025 (7.2 per cent of GDP) ("Indian Tourism and Hospitality," 2017)

### **Opportunities of Cashless Economy**

Cashless economies would be helpful to the global economy and specifically for the tourism industry. Since cash is the primary mode of transactions in small travel agencies and especially in offline travel agencies. It would be easier for government to monitor income tax paid by these travel agencies and proper payment of tax would strengthen the nation's economy. Cashless transactions would be helpful in the context of negative global inflation and quantitative easing. Going cashless would also reduce the levels of corruption prevalent in the travel and tourism industry. It will reduce instances of tax avoidance because it is financial institutions based economy, where transaction trails are left. It will reduce real estate prices because of curbs on black money as most of black money is invested in Real estate prices which inflates the prices of real estate markets and this is the reason that hotels and restaurants are being so expensive these days. It will pave way for universal availability of travel services to all as no physical infrastructure is needed other than digital. Speed and satisfaction of operations for travellers, no delays and queues, no interactions with travel agents required. An increased use of credit cards instead of cash would primarily enable a more detailed record of all the transactions which take place in the society, allowing more transparency in travel operations and money transfers.

### **Challenges of Cashless Economy**

For the Indian Inbound tourism industry, the demonetization drive came at a very inappropriate time, as October to March is the peak inbound tourism season for India. This is the time when the most of foreign tourists visit India. The demonetization has adversely impacted their plans to visit the country. A few countries like the UK, US and France have issued advisories for the two-three months that is also discouraging foreigners from coming to India. India is predominately a cash economy, where more than 95% of all transactions are done in cash, and use of card for making payment is very limited. Because of the sudden implementation of demonetization, replacing demonetized currencies and getting new cash became extremely difficult. Out of the blue decision of demonetization of high value notes has severely affected the stays of foreigners in India, many of whom find themselves stranded in the country because of difficulties in converting foreign currency into rupees. Their holiday experience has been spoiled due to the sudden demonetization move. They are unable to buy much stuff due to lack of Indian rupees. Tourists coming to India are facing problems in making payments and they have to queue up outside banks to get the local currency rather than enjoying their trips. This scenario is discouraging foreign tourists to come to India. (Global, 2016) The hospitality and the tourism markets are renowned for their ability to create a large number of direct and indirect jobs in the country. With the inability of tourists to easily spend on frills due to lack of available currency, the unorganized industry will suffer the most in its ability to create new jobs. The impact of demonetization will also be felt by the suppliers of consumable goods, who often work on cash transactions with their wholesale counterparts. (Lamba, 2016)

## Conclusion

This study shows that the introduction of cashless economy in India can be seen as a step in the right direction but as of now tourism industry is facing the brunt of demonetisation. It is expected that its benefits will be felt in modernization of online travel booking system, reduction in the cost of travel services as well as reduction in high security and safety risks. In the short and medium terms, the step of demonetization will have varied effects on the many sections of the Tourism industry in the country, but in the long term will positively impact the growth of the hospitality sector. The demonetization drive will benefit the organized tourism sector in India the most. Combined with the general uptake in the tourism sector, the movement of tourist to the organized sector due to ease of alternate modes of payment will positively impact the market and decision to cashless economy can play a game changer in making the unorganised and traditional travel and hospitality sector into a modern and organised one.

## Recommendations

The following section outlines recommendations to help India in working towards better integration and use of cashless economy to flourish tourism industry.

- Spreading awareness about modern online travel booking websites in simple language so that people can understand it properly.
- Campaign to encourage tourists to book any of the travel products online and they need to do cashless transaction for paying the amount.
- Advancing markets and providing electronic swapping machines to all small shopkeepers at the tourist destination along with training to operate it.
- There should be proper mechanism for small travel agents for cashless transactions.
- Increasing internet speeds so that none of the transaction would fail.
- Facility of e-tickets on every monument and heritage site.

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