



RURAL TOURISM WITHIN THE ENDOGENOUS GROWTH PARADIGM: IMPLICATIONS FOR LOCAL DEVELOPMENT

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Abstract

Rural tourism has increasingly been recognised as a catalyst for socio-economic transformation in developing regions, particularly in areas characterised by underdeveloped infrastructure and agrarian dependence. In the context of North-East India, rural tourism holds significant potential not only for diversifying income sources but also for strengthening the long-term foundations of local development. This paper explores rural tourism through the framework of Endogenous Growth Theory (EGT), which emphasises the role of human capital, innovation, and knowledge spillovers in driving sustainable growth. Unlike exogenous models, EGT situates growth within the internal dynamics of an economy, highlighting the contribution of community-driven initiatives, skill development, and cultural capital. The theoretical discussion identifies key pathways through which rural tourism aligns with endogenous growth mechanisms. While rural tourism is not free from challenges, such as seasonality, resource mismanagement, and infrastructural gaps; the endogenous growth perspective positions it as a long-term development strategy rather than a short-term economic activity. By embedding tourism into local knowledge systems, institutions, and community networks, rural regions in North-East India can achieve self-sustained development trajectories. This theoretical discussion provides insights for policymakers, scholars, and practitioners, emphasising that rural tourism must be integrated with broader strategies of human capital development, education, and innovation in order to realise its potential as an engine of endogenous growth.

Keywords: Rural Tourism, Endogenous Growth Theory, Human Capital, Knowledge Spillovers, Local Development.

1. Introduction

Tourism has long been considered as an important driver of economic development, particularly in regions endowed with natural beauty, cultural diversity, and historical significance. Globally, the tourism industry is a major contributor to economic growth and employment. According to the World Travel and Tourism Council (hereafter WTTC), the sector accounted for 9.1 percent of global GDP, generating over \$9.9 trillion in economic value and supporting approximately 330 million jobs worldwide in 2024 (WTTC, 2024). In India also, tourism plays a similarly vital role in the national economy. The WTTC (2024) estimated that travel and tourism contributed \$199 billion, or approximately 5.8 percent of India's GDP, and provided direct and indirect employment to more than 40 million people. In recent decades, the focus has shifted from mainstream, urban-centric tourism to more inclusive forms such as rural tourism, eco-tourism, and community-based tourism. Rural tourism, in particular, has been recognised as a promising avenue for local development, especially in developing economies where agriculture is dominant but offers limited income diversification opportunities. In the National Strategy & Roadmap for Development of Rural Tourism in India: An initiative towards Aatmanirbhar Bharat by Ministry of Tourism, Government of India, rural tourism is defined as “*any form of tourism that showcases the rural life, art, culture, and heritage at rural locations, thereby benefiting the local community economically and socially as well as enabling interaction between the tourists and the locals for a more enriching tourism experience.*” (Ministry of Tourism, GOI, 2012).

In the context of North East India, rural tourism signifies a significant opportunity for the preservation of culture and the stimulation of economic development. The region boasts a rich tapestry of ethnic traditions, varied ecosystems, artisanal crafts, and lively cultural celebrations including Bihu, Wangala, and Hornbill. Despite these strengths, the rural economy in this region still grapples with structural challenges, including limited industrialisation, infrastructural constraints, and reliance on seasonal agriculture. If developed strategically, rural tourism has the potential to serve as an alternative route to sustained growth by utilising internal factors such as local resources, human capital, and community initiatives within the region. This study, therefore, positions rural tourism within the context of Endogenous Growth Theory (hereafter EGT). In contrast to exogenous growth models that focus on external influences like capital inflows or foreign



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investment, EGT emphasizes the significance of internal factors such as development of human capital, innovation, knowledge spillovers, and cultural assets in fostering sustained long-term growth. Rural tourism offers a distinctive opportunity to implement these theoretical ideas on a smaller scale, enabling communities to transform local traditions, ecological resources, and skills into viable economic ventures.

2. Review of Literature

2.1 Rural Tourism and Local Economic Development

The relationship between tourism and economic development has been widely discussed in development economics, yet its integration with EGT is relatively recent. Scholarly attention to rural tourism began to grow in the 1980s and 1990s, when researchers such as Lane (1994) and Sharpley (2004) emphasized its potential to diversify rural economies. Rural tourism was conceptualized not only as a tool for income generation but also as a mechanism for social inclusion, community empowerment, and cultural preservation. According to OECD (1994), rural tourism contributes to job creation, the revitalization of traditional skills, and the stimulation of small-scale entrepreneurship.

In developing regions, studies by Telfer (2009) and Briedenhann and Wickens (2004) highlighted that rural tourism often serves as a complementary livelihood strategy alongside agriculture. It creates opportunities for the monetization of local culture, crafts, and festivals. However, the benefits of rural tourism depend on the degree of local participation and ownership (Murphy, 1985; Scheyvens, 1999).

2.2 Rural Tourism in the North-East Indian Context

In the Indian setting, rural tourism has been promoted across states including North-East India under various government initiatives such as the Rural Tourism Infrastructure Development Component under Product Infrastructure Development for Destinations and Circuits (PIDDC) Scheme, Swadesh Darshan etc. Ministry of Tourism, Govt. of India, also promotes various tourist destinations of North-Eastern Region through varied initiatives including promotional events, assistance to State Governments, stakeholders for organizing fairs and festivals, participation in exhibitions, website and social media. The Ministry has been organizing International Tourism Mart (ITM) in the North Eastern Region to showcase the tourism potential of North-Eastern States of India. Studies by Sati (2019) and Jamir et. al (2022) demonstrate that rural tourism in states like Assam, Meghalaya, Mizoram and Nagaland has the potential to transform local economies by generating supplementary income and promoting cultural industries; may help in reducing poverty (Choudhury et. al, 2018) and prevent rural out-migration (Nagaraju & Chandrashekara, 2014). However, studies also revealed some hindrances to development of rural tourism in the region including poor connectivity, inadequate infrastructure, and lack of training (Choudhury et. al., 2018; Bhutia, 2020). While rural tourism has grown around eco-sensitive zones like Kaziranga and Majuli, its economic sustainability remains contingent upon community engagement and institutional support. There is, therefore, a clear need for a theoretical model that integrates rural tourism within the broader dynamics of regional development.

2.3 Endogenous Growth Theory and Its Application to Tourism

The Endogenous Growth Theory (EGT) emerged in the late 1980s as a response to the limitations of the neoclassical growth model, which attributed long-term economic growth to external technological progress. Developed by Romer (1986), Lucas (1988), and Aghion & Howitt (1992), the EGT revolutionized growth economics by identifying internal factors such as human capital, technological innovation, and knowledge spillovers as primary drivers of long-term growth. Unlike neoclassical models, where diminishing returns to physical capital leads to stagnation, EGT suggests that continuous investment in learning, innovation, and skills can sustain growth indefinitely. Human capital formation, learning-by-doing, and research-driven innovation allow economies to grow continuously from within. This theory is particularly relevant for developing regions where traditional capital accumulation is limited but where latent social and cultural assets can be transformed into productive capabilities.

In tourism economics, EGT has been used to explain how the sector can foster local innovation and capacity building. Studies by Croes (2013) and Sequeira and Campos (2007) argue that tourism generates knowledge spillovers through exposure to global markets and cross-cultural interactions. This enhances local entrepreneurship and human capital formation, which are the key mechanisms in the EGT framework. Moreover, cultural tourism has been linked to endogenous



growth by transforming intangible cultural assets into economic value through creative industries and cultural branding (Richards, 2018).

While there is extensive literature on the economic potential of rural tourism, few studies explicitly analyze it through the theoretical lens of endogenous growth, particularly in the context of North-East India. Most empirical works focus on descriptive outcomes such as income levels or employment generation, rather than the underlying growth mechanisms. This paper seeks to establish a conceptual linkage between rural tourism and endogenous growth processes specifically human capital formation, innovation diffusion, and knowledge-based community development in the context of North-East India. The significance of this study lies in the fact that it contributes to the growing literature on rural development, offering an economics-oriented framework that positions tourism not merely as a sectoral activity but as a driver of self-sustained growth rooted in local capacities.

3. Objectives

The objectives of this paper are two-fold:

- To analyse the theoretical linkages between rural tourism and endogenous growth.
- To identify the pathways through which rural tourism fosters local development in North-East India.

4. Methodology

This paper adopts a theoretical-conceptual approach based on endogenous growth theory (EGT) to explore how rural tourism can foster local development. It synthesizes existing literature to construct a conceptual framework linking tourism activities with human capital formation, innovation, and knowledge spillovers.

5. Discussion

5.1 Endogenous growth and linkage with rural tourism

EGT, as already mentioned, emphasizes that growth becomes self-sustaining when communities develop endogenous capacities that continuously generate new knowledge, innovations, and skills. Unlike exogenous factors such as foreign investment or aid, these drivers evolve automatically from within the system that closely aligns with the nature of rural tourism. Rural tourism provides a practical manifestation of the principles underlying EGT. It acts as a knowledge-intensive and skill-based sector, relying more on cultural interpretation, entrepreneurship, and innovation than on heavy capital investment. The sector's success depends largely on local communities' ability to utilize their internal resources i.e. natural beauty, heritage, traditions, and human skills to create unique experiences. Tourism activities demand new skills in areas such as hospitality, marketing, communication, and environmental management. As rural residents acquire and refine these abilities, they enhance their productivity and employability. Over time, this accumulation of skills constitutes a rise in local human capital which is a key driver in the EGT framework. The interaction between local communities and visitors give ample scope for exchange of ideas, techniques, and worldviews. These interactions can inspire innovations in agriculture, handicrafts, cuisine, and event management. The knowledge acquired from tourists and external stakeholders gradually diffuses within the community, leading to collective learning and innovation-driven growth. Further rural tourism encourages micro-entrepreneurship among people. Local people start developing homestays, guiding services, handicraft enterprises, and agritourism ventures. These innovations do not just increase income rather they build institutional capacity and entrepreneurial ecosystems that sustain development internally.

The EGT also recognizes intangible assets like social trust and cooperative networks as catalysts for innovation. In case of rural tourism, community participation and collective management foster strong social cohesion, enabling communities to organize, share resources, and manage tourism sustainably. Cultural capital, embodied in festivals, traditions, and art, becomes an economic asset that fuels further growth.

Thus, the endogenous growth mechanism of rural tourism can be presented through the following framework:

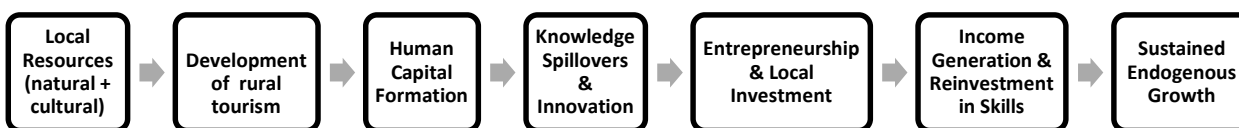


Fig 1: Rural Tourism as an Endogenous Growth Mechanism:
Conceptual Framework



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In the above framework, each stage reinforces the next, generating a cumulative cycle of progress. As communities accumulate experience and knowledge, learning becomes self-reinforcing. Younger generations, observing successful local entrepreneurs, invest in their own education and skills, perpetuating a virtuous cycle of human capital accumulation. Over time, this cycle transforms a previously static rural economy into a self-sustaining system characterized by local innovation and continuous learning. This aligns with Lucas's (1988) notion of *learning-by-doing*, where repeated interactions and practical exposure generate productivity gains from within the economy.

6. Pathways for Local Development in the context of North-East India

North East India presents a fertile ground for the application of the above theoretical framework. The region possesses abundant natural and cultural capital but lacks large-scale industrialization. Here, rural tourism can trigger endogenous growth through strategic mobilization of traditional knowledge, local artistry, and community networks.

6.1 Human Capital Formation

Development of tourism creates demand for diverse skills such as hospitality management, communication, local guiding, culinary arts, digital marketing, and environmental conservation. In many rural areas of North-East India, these skills were previously underutilized or informal. For instance, in Majuli Island (Assam), local residents have transitioned from subsistence agriculture to managing homestays and cultural workshops. Training programmes initiated under the Assam Tourism Development Corporation (ATDC) have enhanced their service quality, language proficiency, and business management capacity. This upskilling process not only raises individual income levels but also increases the community's collective productivity, which is an essential aspect of endogenous growth.

6.2 Entrepreneurship and Local Innovation

Rural tourism nurtures micro-entrepreneurship and innovation, both central to endogenous growth dynamics. Small-scale enterprises such as homestays, handicraft shops, traditional cuisine stalls, and cultural event management services emerge organically within rural communities. In Meghalaya, for example, the Mawlynnong village tourism initiative, known as *the cleanest village in Asia*, illustrates how community entrepreneurship can transform local economies (Pal, 2015). Villagers collectively manage tourism operations, reinvest profits in sanitation and education, and continuously innovate to improve visitor experience. Similarly, Nagaland's Hornbill Festival has evolved from a government-sponsored cultural event into a platform for entrepreneurial innovation. Local artisans, musicians, and food vendors use the festival to showcase and sell their creations, attracting both domestic and international tourists. These innovations are rooted in local culture and sustained by community participation, precisely the kind of internal innovation loop that EGT envisions.

6.3 Knowledge Spillovers and Learning Networks

Tourism generates rich opportunities for knowledge spillovers, which are at the heart of endogenous growth. When local entrepreneurs, artisans, and guides interact with visitors, NGOs, and government agencies, they acquire new insights about market trends, consumer preferences, and production techniques. A striking example is seen in *Sualkuchi* (Assam), known for its silk weaving heritage, where exposure to tourists has led artisans to adopt modern designs, online marketing strategies, and quality improvements inspired by visitor feedback. The result is a localized diffusion of knowledge, where ideas learned from tourism interactions ripple across the community, enhancing productivity and competitiveness.

6.4 Cultural Capital as an Economic Asset

By preserving and showcasing traditional arts, crafts, music, and festivals, communities can transform heritage into an income-generating asset while reinforcing local identity. In Arunachal Pradesh, for example, the *Nyishi*, *Mishmi*, *Apatani*, *Nocte*, *Tangsa*, *Wancho* tribes have used cultural tourism to preserve their unique architecture, bamboo crafts, and ecological knowledge systems (Sarma, 2012 and Wangpan et. al, 2015). Similarly, Assam's Bihu festivals attract large numbers of visitors, creating seasonal employment and stimulating demand for local products such as handlooms and cuisine. Likewise, the *Sangai* Festival in Manipur highlights the state's rich performing arts, indigenous crafts, and cuisine, fostering cross-cultural exchange and local entrepreneurship. Furthermore, bamboo and cane craft traditions in states like Tripura and Mizoram have been incorporated into eco-tourism projects. The process of organizing, performing, and marketing these cultural experiences deepens social cooperation and builds local pride, two elements that underpin sustainable endogenous growth.



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6.5 Women Empowerment and Inclusive Development

A crucial dimension of rural tourism's contribution to local development lies in gender inclusion. In many North-Eastern Indian societies, especially in hilly areas, women play an active role in agriculture, crafts, and household management. Rural tourism opens new spaces for women entrepreneurship in homestays, weaving cooperatives, and local cuisine enterprises and thereby allowing them to transform informal labour into recognized and remunerated work. For instance, in Nagaland, women's self-help groups (SHGs) have become central to cultural tourism, managing stalls at the Hornbill Festival and producing traditional crafts for export. Their participation not only enhances household income but also improves decision-making power and community leadership. This inclusivity reinforces the EGT notion that broader participation in innovation and knowledge creation enhances long-run growth potential.

7. Challenges

- **Infrastructure Deficits:** Despite rich cultural and ecological assets, inadequate transportation networks, poor road connectivity, and limited digital and accommodation infrastructure constrain tourism development across rural areas of the North-East India, particularly in states like Arunachal Pradesh and Nagaland.
- **Seasonality of Demand:** Tourism flows in the region are highly seasonal, influenced by climatic patterns and accessibility issues. This seasonality leads to income instability and underutilization of local tourism facilities during off-peak periods.
- **Resource Management Constraints:** Fragile ecosystems in hill and forest areas face pressures from unregulated tourism activities. Limited institutional capacity for environmental monitoring and waste management threatens sustainability in popular destinations such as Meghalaya's living root bridges and Sikkim's alpine zones.
- **Institutional Weaknesses:** Governance fragmentation between state departments, autonomous councils, and local panchayats impedes coordinated planning. Skill gaps in hospitality, digital marketing, and destination management further limit community participation and competitiveness.
- **Fiscal and Policy Barriers:** Public investment in tourism infrastructure and capacity-building remains uneven across states. Bureaucratic procedures often delay project execution, while small operators face difficulties accessing financial support and training schemes.

8. Policy implications and Conclusion

While rural tourism holds significant potential as a driver of local development, the aforementioned barriers constrain its capacity to function as an endogenous growth engine. Overcoming these challenges requires integrated strategies that address infrastructure deficits, manage seasonality, ensure sustainable resource utilization, and strengthen institutional frameworks in the North-Eastern region. Policy interventions must be realistic, aligned with fiscal limitations, and sensitive to local socioeconomic conditions. Only through a concerted effort to address these multifaceted challenges can rural tourism fulfill its promise as a catalyst for inclusive and sustainable development in rural India.

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