

Tourism Industry: An Instrument of Indian Economic Growth through FDI

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Abstract: *Tourism industry is the fastest growing industry of the world which brings the various growth prospects to the economy. After Globalization this industry grows tremendously as it opens many opportunities by connecting with various countries. While talking about Indian scenario, the hotel and tourism industries have been growing rapidly in recent years, bringing in huge revenues through overseas as well as domestic tourists in many parts of India. Tourism is one of the third largest revenue generators of foreign exchange for India and also employs one of the highest numbers of manpower while talking about Indian scenario; the hotel and tourism industries have been growing rapidly in recent years, bringing in huge revenues through overseas as well as domestic tourists in many parts of India. Tourism is one of the third largest revenue generators of foreign exchange for India and also employs one of the highest numbers of manpower. Conde Nast Traveler, one of the most decorated travel magazines, rated India as one of the hottest destination in the world. According to the World Tourism Organization, India will be the leader in the tourism industry in South Asia with 8.9 million arrivals by 2020. India is gradually emerging as the second most rapidly increasing (8.8 percent) tourism economy in the world over 2005-14 according to the World Travel & Tourism. This paper includes the study about the major contribution of tourism industry in the economic growth in the form of increased revenues, employment generation, poverty alleviation and women empowerment in environment sustainable manner which has multiplier effect in the economy.*

Keywords: *Tourism Industry, FDI, GDP, Indian Tourism.*

1. Introduction

India's tourism industry is experiencing a strong period of growth, driven to grow forth Indian middle class, growth in high spending foreign tourists, and coordinated government campaign to promote "Incredible India". Tourism has now become a significant industry in India, contributing around 5.9 per cent of the Gross Domestic Product (GDP) and providing employment to about 41.8 million people. As per the World Travel & Tourism Council, the tourism industry in India is likely to generate US\$ 121.4 billion of economic activity by 2015 and Hospitality sector has the potential to earn US\$ 24 billion in foreign exchange by 2015. Additionally, India is also likely to become a major hub for medical tourism, with revenues from the industry estimated to grow from US\$ 333 million in 2007 to US\$ 2.2 billion by 2012, says a study by the Confederation of Indian Industry (CII) and McKinsey. The booming tourism industry has had a cascading effect on the hospitality sector with an increase in the occupancy ratios and average room rates. While occupancy ratio is around 80-85 per cent – up nearly 10 percent from three years back, the average increase in room rates over the last one year has hovered around 22-25%, *Dewan P.N. Chopra Consultants Private Limited.* It is pertinent to mention in this context, that according to recent estimates, there are a total of 110,000 rooms in India, as against a total requirement of approximately 250,000 – demonstrating the untapped potential that continues to exist in this industry. With a view to stimulating domestic and

international investments in this sector, the government has implemented the following initiatives:

- 100% FDI under the automatic route is now permitted in all construction development projects including construction of hotels and resorts, recreational facilities and city and regional level infrastructure.
- 100% FDI is now permitted in all airport development projects subject to the condition that FDI for up gradation of existing airports requires FIPB approval beyond 74%.
- A five year tax holiday has been extended to Companies that set up hotels, resorts and convention centers at specified destinations, subject to compliance with the prescribed conditions.
- Plans for substantial up gradation of 28 regional airports in smaller towns and the privatization and expansion of Delhi and Mumbai airports

2. Indian Tourism Industry

Tourism provides about 10% of world's income and employs almost one tenth of the world's workforce. The positive aspect of tourism as a source of foreign exchange, a way to balance foreign trade, "Industry without chimney" is

this fact is emphasized by many people. In the year 2010, this sector witnessed substantial growth in comparison to 2009. The foreign tourist arrival (FTA) during 2010 in India was 5.58 million as compared to 5.17 million of the FTA's during 2009 which shows a growth of 8.1%. The growth rate 2009 over 2008 was (-) 2.2%. FEE from tourism during 2010 were rs.64889 crore as compared to Rs. 54960 crore during 2009, registering a growth rate of 18.1%. The growth rate in FEE from tourism during 2009 over 2008 was 8.3%. Expectation to increase to US \$ 275.5 billion by 2018 at a 9.4% annual growth rate is made. The ministry of tourism is the nodal industry for the development and the promotion of tourism in India and maintains "*Incredible India campaign*". Tourism becomes the major sector of the economy, in various developing countries like India. As it contributes to a large proportion of national income along with generating ample opportunities. This industry is the fastest growing service industry of the country, having potential for its further expansion and diversification. With forward and backward linkages other sectors of the economy such as transport, construction, handicrafts, manufacturing etc., it's also become an effective tool to alleviate poverty and ensured growth with equity. Like many of the developing countries of the world, in Asian countries tourism is also considered as a powerful means of attracting at the coveted foreign exchange and easy tool for boosting the national economy. This industry brought investment, create jobs and promotes sales of crafts and local air craft's etc.. From another perspective, it is also a factor of acceleration which affects attitudes; alter popular beliefs, change mentalities and spreads new concepts relating to work, money and human relationship. This industry creates many opportunities for the people with the different abilities and older persons, and now they became the part of growing group of industries producing travel goods, sports and other leisure oriented products and services. And award of excellence is given by the ministry to the most barrier free monument/tourist attraction in the country which encourages various agencies responsible for maintaining monuments/tourist attraction to create barrier free environment for promotion of accessible tourism.

3.1 Foreign Direct Investment in Tourism Industry

With a view to stimulate domestic and international investments in this sector, the government has permitted 100 percent FDI in the automatic route –allowing full FDI into all construction development projects including construction of hotels and resorts, recreational facilities, and city and regional level infrastructure. 100 percent FDI is now allowed in all airport expansion projects subject to the condition that FDI for up gradation of existing airports requires Foreign Investment Promotion Board (FIPB) approval beyond 74 percent. A five year tax holiday has been given to organizations that set up hotels, resorts and convention centers at specific destinations, subject to fulfillment with the agreed conditions. Some international hospitality majors such as Hilton, Accor,

Marriott International, Cabana Hotels, Premier Travel Inn (PTI) and InterContinental Hotels group have already announced major venture plans in India in recent years. It is expected that the hospitality division is expected to see an additional US\$11.41 billion in inbound investments over the next two years.

3.2 Reasons of Investment

Economic liberalization has given a new force to the hospitality industry.

- The Indian hospitality industry is increasing at a rate of 15 percent yearly.
- The current gap between supply and demand is predicted to grow as the economy opens and grows.
- The government predicted an additional requirement of 2,00,000 rooms in the next five years.
- Due to stable political and social conditions in India, there will be an increase in the number of tourist arrivals. India is ranked fourth among the world's must see countries
- The present government in its process has taken a few projects like opening of the partial sky policy. This allows private domestic airline operators to fly on the Indian skies
- An increasingly growing middle class group, the arrival of corporate incentive travel and the multinational companies into India has bright prospects for tourism. India's easy visa rules, public freedoms and its many attractions as an ancient civilization makes tourism development easier than in many other countries
- The 5 star hotel sector has increased the fastest during the last five years at a CAGR of 12 percent. In the coming years, this sector can be divided into three sub-segments Luxury, Business and Leisure. The growth in this segment shows that segment of travelers coming into India. In the last few years India has seen a large inflow of business travelers in the country courtesy to relaxation of the government's stand on FDI for most of the sectors in the country.
- It costs an average of US\$50-80 million to set up 5 star hotels with three hundred rentable rooms in India. The gestation period is generally between 3-5 years.
- According to Economic Survey of 2010-11 the average annual growth rate of hotel and restaurant sector has been 8.8% for the period 2005-06 to 2009-10. However, last two years have not been quite pleasant for the sector as growth faltered badly.
- Till five years ago, the sector was registering a growth of around 15% but slowdown in the economy has affected the growth prospects of the sector badly and the growth rate has dropped to single digit level.
- The sector registered negative growth (-3.41%) in 2008-09 over the year 2007-08, which was due to adverse global economic conditions in this year. But the sector is back in the positive growth territory and clocked a growth of 2.2% in 2009-10.

Table 1: Indian Hotel Industry: Annual growth rate (%)

Year	Area	Annual Growth Rate (%)
2005-06	Hotels & Restaurants	17.5
2006-07	Hotels & Restaurants	14.4
2007-08	Hotels & Restaurants	13.1
2008-09	Hotels & Restaurants	-3.4
2009-10	Hotels & Restaurants	2.2

Source: *Economic Survey 2010-11*

- According to the statistics by World Travel and Tourism Council, India ranks 18th in business travel and will be among the top 5 in this decade. With such growth, sources estimate, demand is going to exceed supply by at least 100% in coming years.

Table 2: Number of Hotels - 2013

Hotel Categories	No. of Hotels	No. of Rooms
5 Star Deluxe/ 5Star	265	48,165
4 Star	770	15,420
3 Star	505	35,100
2 Star	495	22,950
1 Star	260	19,900
Heritage	72	4,200
Uncategorized	8078	Not Available
Total	10,445	1,45,735

Source: FHRAI

4.1 Developmental Growth through FDI in Tourism Sector

In the few Financial Years, The market size of Hotel industry has more than doubled from about USD 1 billion in 2004 to USD 2.3 billion in 2008. It is estimated that India is likely to have around 40 international hotels brands by 2016. The growth of the Hotel Industry is largely due to the rising business opportunities, strong economic performance and cross border investments. India has currently base of 110,000 hotels rooms and still face the shortage of 150,000 rooms. There is a mismatch between demand and supply, leading to higher occupancies and average room rates. Occupancy rates across India have improved from 52 percent in 1999 to 67 percent in 2007-2008. Average Room Rates across cities have improved from USD 51.6 to USD 76.4 in the same period. Despite the global economic recession, foreign tourist arrival increased to 5.37 million in 2008 from 4.98 million in 2007. Sports events like IPL and the Commonwealth games have a

- country. For provision of single-window clearances at the local, State and Central Government levels to reduce procedural delays.
- Tax holiday would encourage FDI in this sector and more players to set up hotels, to bridge the shortage

potential to create demand for both Tourism and Hospitality industry in India. According to the Indian Tourism ministry, the Indian tourism industry would be the third largest foreign exchange earner in the country in the next three year. Till the end of 2012, foreign tourists will grow at the fastest pace in comparison with the last decade and it is estimated that tourism in India could contribute US\$1.8 billion to India's GDP. These statistics show the seriousness of the Indian government towards tourism. Andhra Pradesh, Uttar Pradesh, Tamil Nadu, Karnataka and Rajasthan are the leading tourism destinations in India in terms of total tourist arrivals. In the next few years, some new states should come into the picture such as Uttaranchal, Madhya Pradesh and a few others. According to the ministry, it is predicted that around US\$10 billion is required for the development of Indian tourism in the next five years. When we think of long term

4.2 Expected Growth of Domestic and Foreign Tourist in India

The rate of growth of domestic tourism is expected to be 7% while that of foreign tourist, it is likely to be 5% as per the studies conducted by "TCS Projections" up to year 2020 as shown in Table 3: capital requirements for all the states, it would be nearly US\$56 billion in the next 20 years.

Table 3- Projected Tourist Growth

Year	Domestic Tourist	Foreign Tourist	Total
2000	6.67	0.56	7.23
2005	10.18	0.75	10.93
2010	14.05	0.96	15.01
2015	27.64	1.57	29.21

Source: *Tourism, Art & Culture Survey 2014*

5. Conclusion

As we pointed out in the introduction, FDI plays a significant role in expanding the tourism sector in India. This shows that appropriate policy to explore tourism resources and plans to develop new tourist venues and facilities may need to be considered in order to meet the increasing demand of tourism in India expected as a result of continued strong foreign direct investment. The Travel & Tourism industry provides tremendous opportunity to India in terms of contribution to its GDP and employment generation. According to CII estimates, an additional 1 million visitors can help generate revenues of Rs.4, 300 crore annually. Thus, Government policies, which would focus at increasing tourist arrivals in the country and facilitate investments in tourism infrastructure, would lead to significantly higher multiplier effect on the key economic parameters of the Indian economy. From the above study following conclusion is recommended as the measures to attract more and more FDI:

- There was need to rationalize the taxation on the hotel industry and adopt a single luxury tax across the of rooms which according to Government estimates stood at one lakh rooms.
- Inland Air Travel Tax should be applied at the rate of 5% of the basic ticket price.

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Author Profile

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