

Tourism, FDI and Inclusive Growth in India

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Abstract

Tourism is a key sector earning foreign exchange for Indian economy and contributing significantly to GDP. It is working as a harbinger of 'more inclusive growth' in India by promoting other industries inside the economy through backward and forward linkages and generating employment in various sectors such as hospitality, travel, and entertainment. Moreover, it is fulfilling long-lasting socio-economic objectives of Indian economy by integrating the people at national level and creating international sensitivity. Given the role of travel & tourism sector in 'inclusive growth', the Indian government has taken varied initiatives for stimulating domestic and international investments in this sector. Considering this, the present paper aims to illustrate the present status and contribution of Foreign Direct Investment (FDI) in facilitating tourism in India, pinpoint the challenges of tourism in India, and highlight the issues that deserve attention of policy makers for achieving inclusive growth through tourism sector.

Keywords:

Travel & Tourism, FDI, Inclusive Growth, Challenges.

Tourism has been a key sector earning foreign exchange for Indian economy and contributing significantly to GDP. According to World Travel and Tourism Council (WTTC) annual report 2014, every \$1 million in travel and tourism spending in India generates \$1.3 million in GDP. It has been working as a harbinger of 'more inclusive growth' in India by promoting other industries inside the economy through backward and forward linkages and generating employment in various sectors such as hospitality, travel, and entertainment. According to WTTC, the Indian tourism industry can create about 40 million jobs by 2019. Moreover, it has been fulfilling long-lasting socio-economic objectives of Indian economy by integrating the people at national level and creating international sensitivity.

Foreign direct investment (FDI) has been considered as a key for faster economic growth and development given its potential to increase productivity, generate employment opportunities, expansion of infrastructure facilities and development of domestic competitiveness. Indian government has undertaken several financial and fiscal reforms to attract foreign investors. Resulting to these reforms, FDI not only escalated in quantum but its composition has also changed tremendously. The sectors attracting maximum FDI has been service sector, telecommunication, computer software, and hotel and tourism among others. At present, Hotel and Tourism industry is occupying 3.28% share of total FDI equity inflows (DIPP 2015).

'Inclusive Growth' has been an exclusive goal in India's economic planning since last one decade. In 12th plan also, government redefined their role from a regulator to a catalyst in tourism development and a 'pro-poor tourism' approach has been adopted for reduction of poverty and inclusive growth. Inclusive growth is broad-based growth across all sectors of an economy, is inclusive of low and middle income groups, and has a distributional aspect aiming to reduce income inequality (Hampton and Jeyacheya, July 2012). The concept of inclusive growth results in poverty reduction through creation of employment opportunities across all segments of society. It includes the excluded agents whose participation is essential in the development process and not just welfare targets of development programs (Planning Commission 2007). Inclusive growth implies that benefits of accelerated economic growth of an economy must be shared by deprived masses.

Nowadays, there is a growing agreement on the positive contribution of tourism in inclusive and sustainable growth and development of a country. United Nations Conference agrees that tourism stimulates the local economy in destination countries through supply-chain linkages with other economic sectors, particularly in agriculture and manufacturing. It promotes entrepreneurship and the growth of SMEs. Tourism bolsters the diversification of the local economy and it generates export income. Tourism-related demand for goods and services creates new jobs, in particular for youth and women, thus contributing to poverty

reduction. Tourism could help generate income for populations in remote and rural areas, thereby reducing incentives for urban migration. In some countries, tourism has created funds for the conservation of biodiversity and the protection of the very assets on which it is based. Last but not least, tourism could contribute to the image building of a country. (UNCTAD XIII - Doha, Qatar, 20 April 2012). Given the role of travel & tourism sector in 'Inclusive growth', the Indian government has taken varied initiatives for stimulating domestic and international investments in this sector. Considering this, the present paper aims to highlight the issues that deserve attention of policy makers for achieving inclusive growth through tourism sector.

Given the growing significance of FDI, tourism and inclusive growth in international commerce, a number of authors addressed varied related issues for Indian economy during last two decades such as Raj et al (2005); Subbarao (2008); Baken and Bhagavatula (2009); Sahoo and Sahoo (2011); Prasad and Sundari (January 2012); Batabyal and Ghosh (2012); and Rajeswari and Akilandeswari (2015). However, after exploring these contextual references research gap is found out and to fulfill that the present paper aims to:

- Exemplify the role of travel and tourism sector in India.
- Review the contribution of Foreign Direct Investment (FDI) in facilitating tourism industry.
- Pinpoint the challenges before travel and tourism sector to attract FDI.

Approach/Methodology: This study adopts descriptive approach to carry out the research work and employs secondary sources to collect data such as World Tourism Organisation Reports, World Economic Forum's Travel and Tourism Competitiveness Report (TTCR), World Travel and Tourism Council (WTTC)'s research reports, Economic Surveys and Budgets of Government of India. The collected data is presented in tabular form in absolute form as well as percentages and explored by calculating ratios and growth rates.

Structure of the study: The present study is divided into four sections. Section second presents the government initiatives to promote travel and tourism industry and presents the structure and contribution of this sector in India. Section third explicates the contribution of FDI in travel and tourism sector and pinpoints the challenges before tourism industry to attract FDI. The fourth and final section discusses some policy implications that deserve attention of policy makers to exploit the full potential of travel and tourism sector.

2. Travel and Tourism Sector in India

Tourism has been recognized as one of the major engines for inclusive growth and employment. Nowadays, there is a growing agreement on the positive contribution of tourism in inclusive and sustainable growth and development of a country. United Nations Conference agrees that tourism stimulates the local economy in destination countries through supply-chain linkages with other economic sectors, particularly in agriculture and manufacturing. It promotes entrepreneurship and the growth of SMEs. Tourism "is like an iceberg; the visible tip is travel, accommodation, and tourist service; below the surface, there are multiple opportunities for households, micro, and small enterprises (Wong et al., 2009). The importance of Tourism as a growth engine has been underlined in the declaration of the G-20 Leaders of Nations Summit held in Mexico in June 2012 which reads:

"We recognize the role of travel and tourism as a vehicle for job creation, economic growth and development, and, while recognizing the sovereign rights of States to control the entry of foreign nationals, we will work towards developing travel facilitation initiatives in support of job creation, quality work, poverty reduction and global growth."

Travel and tourism industry has 'wider impacts' on economy due to its direct, indirect and induced contribution (WTTC). It has direct impact on GDP due to residents and non-residents spending through business and leisure travel activities as well as government spending on those travel & tourism services that has directly linkage to visitors such as cultural (eg museums) or recreational (e.g. national parks). Moreover, it helps in employment generation as it is an attractive investment segment for investors and government. It contributes to GDP and jobs creation also in various indirect ways such as due to domestic purchases of goods and services made by sectors dealing directly with tourists and by members of this industry. It contributes substantially to reducing poverty and empowering women, youth and migrant workers with new employment opportunities.

According to World Tourism Organization (WTO), tourism comprises the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes. International Tourism comprises inbound tourism (visiting in a country from foreign) and outbound tourism (residents travelling from a country to foreign). Inbound (foreign) tourist arrivals is a source of generating foreign exchange for any country. Tourism is generally considered as a private sector driven activity (UNCTAD XIII, 2012). However, government intervention and supportive actions are necessary to exploit the full potential of tourism sector and to achieve inclusive and sustainable growth and

development. Considering this, Indian government has initiated different schemes such as scheme for integrated development of tourist circuits through mega projects, scheme for capacity building for service providers, scheme for large revenue generating projects for investment in tourism infrastructure, scheme for organising tourism related events, scheme for promoting rural tourism since 2002 and scheme of 'Visa on Arrival' for tourists since January 2010. Along with it, government of India has taken following initiatives to promote this sector:

- ❖ Visa on arrival facilities extended to 150 countries in a phased manner from 43 countries currently in the budget 2015-16.
- ❖ A New Tourism Policy approved in 2002 in order to replace the first tourism policy of 1982 considering tourism sector as an engine of growth.
- ❖ Service Export Promotion Council was set up by Department of Commerce for 'Hotel and Tourism' related services, for export promotion.
- ❖ Export House status provided to different travel and tourism organizations.
- ❖ Medical Tourism was included in the purview of the Marketing Development Assistance (MDA) scheme.
- ❖ Initiatives were taken to promote rural tourism under the United Nations Development Programme (UNDP).
- ❖ An amount of Rs.3112.71 crore was sanctioned under 11th five year plan to complete 991 tourism infrastructure projects and national highways up gradation with the aim of facilitating travel and tourism sector.
- ❖ Government allowed 100 per cent foreign investment under the automatic route to upgrade the hospitality and tourism related industry.
- ❖ A 'Mega Projects' scheme has been initiated for tourism infrastructure development to build up nationally and internationally important tourism destinations and circuits.

- ❖ An Inter-ministerial Coordination Committee for the Tourism Sector has been set up in 2011 to create synergy and convergence between various sectors related with tourism development.
- ❖ A "Clean India" Campaign has been launched to make tourist destinations attractive by promoting cleanliness.
- ❖ "Incredible India" and "Atithi Devo Bhavah" Campaign launched in to promote tourism.
- ❖ Online campaigns and interactive / social media as well as other modern and innovative technology spheres (eg. i-pad) are being used in tourism marketing.
- ❖ Financial assistance is being extended to States/UTs for activities such as creation of websites/ online portals, online marketing of tourism products, etc.
- ❖ "Incredible India" mobile app is launched by the ministry of tourism to facilitate tourists while seeking information regarding tourism services.
- ❖ The websites of MoT (www.tourism.gov.in) and Incredible India campaign

(<http://incredibleindia.org>) were revamped and are constantly being updated.

Resulting to the above government initiatives for development of tourism sector, it has become fastest growing economic activity in India. Due to the growing number of tourist arrival for recreational, leisure or business travel in the country, this sector is contributing more to GDP of India than automotive manufacturing industry and generating more jobs than the chemical manufacturing, automotive manufacturing, communications and mining sectors added together (WTTC). India is generating 19 USD billion from visitor exports which is nearly three times the world average (Table 1). The growth of visitor export is higher i.e. 4.8% in 2014 than the world average i.e. 2.9% for the same period. This trend is anticipated to continue in next ten years as the growth rate of visitor exports to total exports is expected to be 4.3% as compare to 4.2% of world average (Table 2).

Table 1: Role of Travel and Tourism in Indian Economy

	India		World Average	
	2013	2014 (%) Growth	2013	2014 (%) Growth
Direct Contribution to GDP (USD Billion)	37.2	7.5	18.0	4.3
Total Contribution to GDP(USD Billion)	113.2	7.3	55.0	4.3
Visitor Exports(USD Billion)	19.0	4.8	7.0	2.9
Capital Investment (USD Billion)	33.1	9.8	4.2	5.7
Direct Contribution to Employment ('000 jobs)	22320.2	2.5	799.8	2.2
Total Contribution to Employment('000 jobs)	35438.5	2.7	2017.4	2.5

Source: Compiled from WTTC Travel & Tourism Economic Impact 2014, World Travel & Tourism Council (WTTC)

Contribution in GDP is an indicator of performance of the tourism sector but contribution to employment is a very important determinant of inclusiveness of this sector. Travel and tourism sector contribution in jobs creation and GDP in

India is also higher than world average (table 1). The contribution of T&T sector in GDP and employment generation is also expected to increase steadily with a growth rate of 7% and 1.9% during next ten years (Table 2).

Table 2: Expected Role of Travel and Tourism in Indian Economy (2014 -24)

	India (% Growth)	World (% Growth)
Direct Contribution to GDP	6.4	4.2
Total Contribution to GDP	7.0	4.2
Visitor Exports to Total Exports	4.3	4.2
Contribution to Capital Investment	6.5	5.1
Direct Contribution to Employment	2.1	2.0
Total Contribution to Employment	1.9	2.4

Source: Compiled from WTTC Travel & Tourism Economic Impact 2014, World Travel & Tourism Council (WTTC)

India has rich natural and cultural resources in the form of mountains, deserts, rivers, forests, wildlife, world heritage sites (both natural and cultural), many fairs and exhibitions, and strong creative industries. These varied tourism options attracting the travelers from around the world. Foreign tourist are arriving in India in a large and increasing number i.e. from 2.6 million in 2000 to nearly 6.9 million in 2013 (Table 3) and generating precious foreign currency for India both in Rs. Crores and USD. This trend is anticipated to

maintain in future as per the Tourism Satellite Accounting research (2011), which illustrates that India is expected to attract 11,149,000 international tourist (overnight visitor) arrivals in 2021, generating US\$ 30.3 billion. However, According to UNWTO, India ranks 41st in international tourism arrivals, and 16th in world tourism receipts. So, to achieve the target of 1% share of International Tourist arrivals by end of 12th Plan in India, annual growth of 12.38 % is required during 2011-16.

Table 3: Foreign Tourist Arrival and Foreign Exchange Earnings

	Foreign Tourist Arrivals	% Change over Previous Year	Foreign Exchange Earnings (In Crores)	% Change over Previous Year	Foreign Exchange Earnings (In Million US \$)	% Change over Previous Year
2000	26,49,378	6.7	15,626	20.6	3,460	15.0
2005	39,18,610	13.3	33,123	18.5	7,493	21.4
2010	57,75,692	11.8	64,889#	20.8	14,193#	27.5
2011	63,09,222	9.2	77,591#	19.6	16,564#	16.7
2012	65,77,745	4.3	94,487#	21.8	17,737#	7.1
2013	69,67,601	5.9	1,07,671#	14.0	18,445#	4.0

Note: # Advance Estimate;

Source: Compiled from Annual Report of Ministry of Tourism 2013-14

3. Foreign Direct Investment and Tourism

The hotel and tourism industry is among the top 10 sectors attracting foreign direct investment (FDI). According to the

Department of Industrial Policy and Promotion (DIPP), this sector attracted about US\$ 7,441 million of FDI between January 2000 and August 2014.

**Table 4: FDI Equity Inflows in Hotel & Tourism
(January 2000 to December 2013)**

Sectors	Amount (USD Million)	% Share of Total FDI Inflows
Hotel & Restaurants	6,398.87	3.04
Tourism	426.41	0.20
Other (Hotel & Tourism)	84.90	0.04
Total	6,910.19	3.28

Source: Compiled from SIA Statistics, Department of Policy and Promotion.

Hotel and Tourism industry is presently occupying 3.28% share of total FDI equity inflows (Table 4). Various international hospitality companies such as Hilton, Accor and the InterContinental Hotels Group have already announced major venture plans in India, and hospitality division is expected to see an additional US\$ 11.41 billion in inbound investments over the next two years (Dezan Shira & Associates, 2013). MakeMyTrip Ltd is planning to invest US\$ 15 million with a focus on e-tourism in India.

Given the role of Hotel and Tourism industry in Inclusive growth, this sector is declared as high priority sector for Investment and 100% foreign direct investment (FDI) is permissible in the sector on the automatic route. This investment is permitted in construction of hotels and other tourism related projects and operations such as airport expansion projects. The term hotels include restaurants, beach resorts, and other tourist complexes providing accommodation and/or catering and food facilities to tourists. Tourism related industry is also broadly defined that comprises travel agencies, tour operating agencies, tourist transport operating agencies and other units providing facilities to tourists. In addition, a five year tax holiday is granted to organizations that set up hotels, resorts and convention centres at specific destinations.

Reason to invest in Tourism sector

- Encouraging growth of tourism in India as according to the World Tourism Organization, by the year 2020, India will become the leader in the tourism industry in South Asia, with about 8.9 million arrivals.
- Inbound tourist expenditure per head in India, is third highest in the world and even more than the global

average of tourist spending (FICCI report 2014).

- Internet and 3G services are expanding in the country which is helping in overcoming the communication barriers.
- Demographic dividend as 65% people in the country is less than 35 years. There is a change in life style of young Indians which has boosted the prospects of inbound tourism.
- Disposable income in the hands of middle class is increasing due to economic growth of India.
- Emergence of many new tourism areas such as Ecological Tourism, Cultural Tourism, Medical Tourism, Wellness Tourism, Agriculture Tourism, Adventure Tourism and Cruise Tourism.
- Reforms in aviation sector such as Open Skies Policy leading to better connectivity with other nations.
- Increasing number of online travel agents such as Make My Trip, Yatra Online, Jet Airways, Trip Advisor Media Group, clear trip, Expedia, Travora Media, and Must See India.

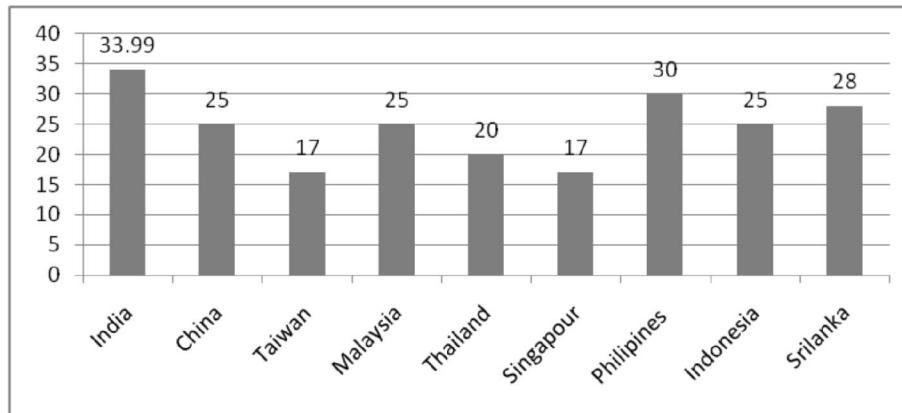
Challenges to Attract FDI in Tourism

Multiple tax structure: Tax structure of India is plaguing with multiplicity of taxes. and highest among all Asia Pacific countries. There is a provision of Expenditure Tax on Hotels at central level while Luxury Tax on hotels at state level. Given this multiple tax structure some international hotel chains are hesitating to initiate their business in India.

Highest tax structure: India, with 33.99% rate of corporate tax, is one among twenty countries in the world who have highest top marginal Corporate Tax Rates (Figure 1). High

taxes structure leads to high cost of tourism in the country which is a reason of low competitive position of India.

Figure 1: High Corporate Tax Rates in India (2014)



Service tax on travel intermediaries: Travel intermediaries can be tour operators (wholesalers) and travel agencies (retailers). These intermediaries provides a wide range of services to tourists starting from booking of tickets to arrangements of boarding and lodging, transportation, sight-seeing and guiding services. In the budget 2015-16, service tax exemption has been given for Indian tour operators arranging tours for foreign travelers wholly traveling outside India and CENVAT credit has also been extended for tour operators. But, radio cab operators have been brought under the service tax ambit and tax is still there on hotel room rent, food and beverages. This indirect tax structure increases the financial burden for the end users and decreases the competitiveness of India to attract tourists.

Lack of coherence in varied policies: According to UNCTAD secretary-general, Supchai Panitchpakdi, "It is encouraging to see that the contribution of tourism to development, poverty reduction and economic growth is increasingly recognized. But it can only be achieved by better policy coherence between and among the various ministries and government departments that provide the enabling environment for tourism to flourish". So there is a need of an inclusive and integrated policy framework in India i.e. trade policy, taxation policy, foreign exchange policy, and information technology related policy should be in tandem with tourism policy.

Diffusion of technology in tourism: E-Tourism is low in India due to lack of easy reach and high cost of technology. People are lacking in necessary e-skills and unaware of e-tourism benefits. In this situation, an integrated strategy of e-skills creation, ICT development and diffusion, local networking, and cooperation projects is necessary. India is lacking in providing ICT infrastructure such as telephone

lines, mobile cellular subscriptions and internet facility so policy makers should focus on creating ICT infrastructure for speedy delivery of information as well as services to foreign tourists.

Skilled human resource: By 2022, there is an additional requirement of 2.7 million employees for the tourism sector along with requirements of 2.8 million for restaurants, 4.1 million for hotels and 0.3 million for the travel trade segment (NSDC study). It is a challenging task to cater this demand of employable human resource and to impart the required skills and knowledge among the aspirants.

4. Conclusions and Policy Implications

Tourism sector has made impressive strides in past two decades of trade reforms regime and its role in Indian economy is increasing. Government has initiated different schemes and policy measures to promote this sector and to earn foreign receipts. There are many emerging tourism areas such as Eco Tourism, Cultural Tourism, Agri-Tourism, Healthcare Tourism, MICE Tourism, Cruise Tourism and Adventure Tourism which can attract FDI and contribute for Inclusive growth. Some areas of concerns for policy makers are:

- Ease in business regulatory framework, simplified tax procedures, easy availability of finance at concessional rates, single window clearing system and implementation of electronic data interchange systems is required to attract foreign investment in the tourism sector.
- Tourism should be declared as export industry so that benefit of export promotion policies and exemptions related to foreign exchange earnings could be taken.

The long lasting demand of hotel industry regarding conferring infrastructure status should be addressed.

- To tap the vast potential of tourism sector, convergence of various ministries and departments such as Ministry of Tourism, Ministry of Aviation, Ministry of Shipping, government authorities and other related agencies along with world-class infrastructure is needed.
- India is having good air transport and ground transport infrastructure but quality of roads (85th) and of ports (79th) requires further improvement. Policy makers should focus on creating tourism infrastructure such as hotels, ATMs, number of tour operators in the economy.
- There is a need to improve healthcare infrastructure in India in the line of international standards. India's health and hygiene standards (109th ranked by TTCR, 2013) and the human resources base (96th rank by TTCR, 2013) is poor and less competitive so these areas should be managed properly.
- Leveraging the digital technologies is another effective measure so ICTs interventions should be used to create transparency and credibility in the tourism scenario and speedy delivery of information as well as services to foreign tourists.
- According to the TTCR (2013), India's policy environment is somewhat distorted along with huge cost and time requirement for conducting a business. To overcome from these barriers Ministry of Tourism coherence among various government policies related to tourism, an appropriate regulatory framework and specific guidelines for industry is need of the hour.
- To harness the full potential of Eco, Cultural, and Agri tourism, development of clusters around the crucial tourist sites along with participation of local bodies and panchayats in the development of tourism in their region is necessary.
- Government has declared adventure tourism as a product and providing different incentives for its growth, yet integrated efforts by government and local bodies are required to provide a safe and long-lasting experience to tourists for the long-term growth of this sector.

To achieve the 8.8 percent per annum target during 2011-21 for tourism sector as per 12th five year plan, implementation of above stated policy measures will prove critical. There is a need to evangelize the massive opportunities in tourism sector to facilitate inclusive and sustainable growth in India.

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