Volume No. 2 (2013), Issue No. 12(December) ISSN (Online): 2320-0685

Foreign Direct Investment: An Exploration of Opportunities in Indian Tourism

Niranjana. C
Assistant professor, Department of commerce, Pazhassiraja college, Pulpally, Wayanad, Kerala

Vimya K.P
Assistant professor, Department of commerce, Pazhassiraja college, Pulpally, Wayanad, Kerala

Abstract: *Travel and tourism is the largest industry in the world in terms of employment in almost every country of the world. The employment, investment, revenue and value addition to the society is much more than any industry in the world in virtually any country (UNWTO). FDI is one of the routes through which developing countries can carry out tourism, but the dynamics of FDI in this dynamic sector, and its implications, have been relatively little studied. There is very little empirical information about the extent of tourism-related FDI in the global economy or its overall impact. The main aim of this article is to analyse the foreign investment in India's tourism sector. The central questions which will be addressed are what is meant by foreign investment in tourism sector, what are the dimensions of such investment and further the investment opportunities in Indian tourism.*
Keywords: foreign direct investment, tourism sector, investment

Introduction

Tourism related capital investment has grown massively during the last few decades and is predicted to continue growing after 2014. The Indian tourism industry is interwoven with the country's monetary development. Over the last decade, India has transformed into one of the most popular tourism destinations in the world, largely as a result of the government's incredible India campaign. The hotel and tourism industries have been growing rapidly in recent years, bringing in huge revenue 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 number of manpower. 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. A number of studies at individual country level have been published in the last two decades which analyze the link between FDI and tourism sector. In the 1990s, FDI inflows became the primary source of external capital in many developing and transition countries. Country after country in the developing world, advised by international organizations, made attracting FDI the heart of its development strategy.

According to the classification of the IMF and the OECD sub-division of foreign investment is: foreign direct investment, portfolio investment and other foreign investment. Most important role in the internationalization of production has foreign direct investment. Many countries try to reach minimal level of economic development and create supportive business environment in order to attract foreign investors. There are several motives that encourage foreign investors: market- seeking, efficiency-seeking, resource- seeking, asset-seeking. Market-seeking means that investors can penetrate new markets or maintain existing ones. Resource seeking means investments which seek for factors that are more efficient than domestic factors.

Foreign tourism companies, beside the injection of fresh capital for new tourism infrastructure, also help to attract foreign tour operators and tourists, and there are many emerging tourism destinations competing for these objectives (Yunis, 2008, 105). Domestic investments in tourism usually provide a better reflection of the cultural characteristics of the country and this is a key element in emphasizing the unique natural characteristics of any destination and hence in offering tourist a unique selling proposition (Yunis, 2008, 105).

Tourism development is essentially driven by business. Governments play a significant role as partners in tourism development to an extent which is not replicated in most other industries through their extensive engagement, by all levels of government, in tourism planning and strategy, marketing, infrastructure development, land use planning and responsibility for parks and public and natural attractions, and through their role in managing environmental and community impacts of tourism (Dwyer and Spurr 2011, 1). Tourism investment supports tourism development. It is very important both to the individual firm, ensuring its future productive viability, and to the destination, adding strongly to the economy's overall capacity to satisfy tourism demand (Dwyer, Forsyth and Dwyer 2010, 459).

Over the years, FDI inflow in the country is increasing. India has tremendous potential for absorbing greater flow of FDI in the coming years. Serious efforts are being made to attract greater inflow of FDI in the country by taking several actions both on policy and implementation front.

Objectives of the Study

The main aim of this article is to analyse the foreign investment in India's tourism sector. The central questions which will be addressed are what is meant by foreign investment in tourism sector, what are the opportunities for such investment and further the factors affecting investment in Indian tourism.

Research Design

The study depends primarily on secondary data for understanding the emphasis of FDI in the Indian tourism sector. The main secondary sources of data that were inter alia examined were

- Official websites of Indian government
- Previous studies conducted in the area

Indian Tourism Sector

The Indian tourism sector is one of the largest service industries in the country in terms of its contribution to the gross domestic product, foreign exchange earnings as well as providing employment to millions. The sector in fact is expected to generate around US$ 42.8 billion(INR 1897.7 billion) by 2017 according to an industry research. Tourism in india is witnessing widespread growth on the back off increasing outbound tourism by the growing middle class, rising inflow of foreign tourist and successful government campaigns for promoting 'Incredible India'. Infrastructure development holds the key to India's sustained growth in the tourism sector. Further the government has allowed 100 per cent foreign investment under the automatic route in the hotel and tourism related industry. Significantly, the country has the potential to become a major global tourist destinations with the tourism sector expected to contribute around INR 3,414$ billion by 2021. India is currently ranked 12th in the Asia pacific region and 68th overall in the list of the world attractive destinations.

The RNCOS-formulated report titled "Indian Tourism Industry Forecast (2007 2011)"objectively analyzes the current scenario and future prospects of the Indian tourism industry, focusing on different parameters of the industry such as: inbound and outbound tourism, expenditure by inbound tourists, and medical tourism in India. It helps analyze the opportunities and factors, which are crucial to the success of the tourism industry in India.

The key findings of the report are:

- ✓ Inbound tourist expenditure per head in India, is third highest in the world and even more than the global average tourist spending.
- ✓ Healthcare tourism is on the rise in India. Visitors can avail several private healthcare facilities. The number of tourists visiting India for medical treatment is expected to reach one million by 2012, representing a Compounded Annual Growth Rate (CAGR) of 28.09% since 2007.
- ✓ During 2001-2006, disposable income grew at a CAGR of 10.11%, which led to an increase in domestic as well as outbound tourism.
- ✓ More than 50% of the revenue earned by the Indian hotel industry comes from room rents. Over the five-year period spanning 2007-2011, Indian outbound tourist flow is expected to increase at a CAGR of 12.79%. It is expected that the tourist influx to India

The Ministry of Tourism has set a target to increase India's share in International Tourist Arrival from 0.6% to 1% by the year 2016. 'The participation of different private and public agencies makes the tourism industry a complex phenomenon requiring a strong cooperation and coordination for it to be developed and expanded along lines that will contribute to the overall national development objectives. Left to itself, the industry will develop naturally, but not necessarily optimally or sustainable, and without clear links to the broad development objectives of the country. Uncontrolled tourism growth could damage India's socio-cultural structure, degrade its tangible and intangible cultural and natural heritage, and lead to adverse economic impacts such as high importation costs, and weakening inter-industry linkages' (GOI 2002:12).

FDI in Indian Tourism

Foreign direct investment in tourism (TFDI) is a category of international investment whereby an entity resident in one economy (direct investor) acquires a lasting interest in a tourism specific enterprise engaging in tourism growth fixed capital formation (a direct investment enterprise) resident in an economy other than that of direct investor (UNWTO, 2004, 22).

Determinants of TFDI are the same as in the other industries. These determinants include cultural/historical/geographical distance, political and/or economic risks, level of economic development, socio-economic environments, privatization of the industry, liberalization of FDI regime, taxation, investment incentives, availability and quality of hard and soft infrastructures and corporate strategies or company-specific factors (Endo, K., 2006, 601).Contrary to perceptions, UNCTAD research found that FDI in tourism is still rather low

– in developed as well as developing countries – compared to the levels of FDI in other economic activities, including other services industries. Table 1 shows the handful of tourism activities in which FDI presence is seen.

Most frequent fdi activities in tourism

Tsa component	Frequency with which fdi appears to occur		
	Most frequent	Occasional	Rare
Hotels and similar	√		
Restaurants and similar	√		
Second homes	√		
Passenger transport rental equipment	√		
Railway passenger transport services		√	
Air passenger transport services		√	
Road passenger transport services			√
Water passenger transport services			√
Passenger transport supporting services			√
Travel agencies and similar			√
Cultural services			√
Sports and other recreational services			√

Source: FDI in tourism: the development dimension, UNCTAD, 2007 p.14

India's liberalization and deregulation policies during the early 1990s have attracted a huge amount of foreign direct investment (FDI) into India in recent years. India has been ranked as the second most favoured FDI destination in the world, just behind China. Policy makers in many countries believe that FDI will lead their country's overall development, including the tourism sector.

For a developing nation like India, FDI could play a significant role in its economic development in general and to the tourism sector in particular by improving India's infrastructure such as international airports, highways, hotels and modern technologies which are the keystones to tourism development.

Tourism is an important sector of Indian economy and contributes substantially in the country's Foreign Exchange Earnings. FEEs from tourism, in rupee terms, during 2011 was Rs.77,591 cr (provisional), with a growth of 19.6%, as compared to the FEEs of Rs.64,889 crore (provisional) during 2010. Government of India is allowing 100% FDI in Hotels and Tourism, through the automatic route and also identified the investment opportunity of about $8-10 billion in the next 5 years in tourism sector. India has significant potential for becoming a major global tourist destination. A statement giving FTAs in India and FEEs from tourism from the years 2000 to 2012 is given below:

Foreign tourist arrivals and foreign exchange earnings during the years 2000-2012

Year	Foreign tourist arrivals	% change over previous years	Foreign Exchange Earnings in Crore	Percentage Change Over Previous Year	Foreign Exchange Earnings (Million US$)	Percentage Change Over Previous Year
2000	26,49,378	6.7	15,626	20.6	3,460	15.0
2001	25,37,282	-4.2	15,083	-3.5	3,198	-7.6
2002	23,84,364	-6.0	15,064	-0.1	3,198	3.0
2003	27,26,214	14.3	20729	37.6	3,103	43.8
2004	34,57,477	26.8	27,944	34.8	4,463	38.2
2005	39,18,610	13.3	33,123	18.5	6,170	21.4
2006	44,47,167	13.5	39,025	17.8	7,493	15.2
2007	50,81,504	14.3	44,360	13.7	8,634	24.3
2008	52,82,603	4.0	51,294	15.6	10,729	10.3
2009	51,67,699	-2.2	53,700*	4.7	11,832	-5.9
2010	57,75,692	11.8	64,889#	20.8	11,136*	27.5
2011	63,09,222	9.2	77,591#	19.6	14,193#	16.7
2012	66,48,318	5.4	94,487#	21.8	16,564#	7.1

advance estimate
*revised estimate

Source: ministry of tourism, annual report, 2012-2013

Reasons to Invest In Indian Tourism

- 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 200,000 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 travellers coming into India. In the last few years India has seen a large inflow of business travellers in the country courtesy to relaxation of the government's stand on FDI for most of the sectors in the country.

Many foreign companies have already tied up with prominent Indian companies for setting up new hotels, motels and holiday resorts. The entry of McDonald's, PepsiCo's Kentucky Fried Chicken, Domino's and Pizza Hut has given an international glitz to the hospitality sector.

Reasons for Low Investment In Tourism

1) Delay in FDI Approvals & Govt. Policies

Huge delay in Foreign Direct Investment approvals in Hotel & Tourism sector. Due to delay in approvals and lack of guidelines in the tourism policy, the Alfred Ford's proposed Himalayan Sky Village is pending since last three years. If it is approved it is one of the highest FDI in the country in tourism sector with US$ 300 million which also provides employment to around 3000 people.

2) High Taxes

One of the fundamental problems plaguing the Indian tourism sector is a multitude of Central and State level taxes, which lead to an increased cost to the tourists. A comparison of the Corporate Tax level in India, which affects the hospitality sector, in comparison with our neighbours, shows India's poor competitive positioning.

3) Multitude of taxes

Ours is the highest tax structure on tourism projects in the Asia Pacific region. Multitude of central and state taxes is the fundamental problem plaguing the tourism sector. Expenditure Tax of 10% is charged in hotels 'wherein room charges for any unit of residential accommodation are Rs.3000 or more per day' while, simultaneously, States levy Luxury Tax ranging from 5% to 25% on the hotel tariff. Taking into account heavy administrative costs of collection of HET by Central Govt. and Luxury Tax by State Govt.s, the net benefit to the economy is considerably smaller and is not compatible with the loss in revenue accruing due to diversion of tourists to lesser-taxed destinations.

Conclusion

Tourism sector holds immense potential for Indian economy. It can provide impetus to other industries through backward and forward linkages and can generate huge revenue earnings for the country. The importance of tourism as a source of foreign exchange for India cannot be ignored. 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.

Reference

Investment opportunities in Tourism Sector, Government of India portal Investment Commission, www.investmentcommission.in

Manpower recruitment in Hotel industry, A market plus report of Ministry of tourism, Government of India.

Meyer, D, Foreign Direct Investment in Tourism - The Development Dimension: United Nations Conference on Trade and Development, Geneva, Switzerland.

Jesim Pais, 2006, “Tourism Employment: An Analysis of Foreign Tourism in India”, ISID, New Delhi.

Manual on FDI in India: policy and procedures, 2003, Secretariat for Industrial Assistance, government of India.

Jože Peric, Maja Nikšic Radic, 2011, “Sustainable Foreign Direct Investment In tourism Sector Of Developing Countries”, Sustainable Tourism: Socio-Cultural, Environmental and Economic Impact, pp. 263-278.

Ivanovic, Zoran, Suzana Baresa, and Sinisa Bogdan, 2011, “Influence of foreign direct investment on tourism in Croatia”, *UTMS Journal of Economics* 2 (1): 21-28.

Winston Moore, Roland Craig well, 2011, “Foreign direct investment and tourism in SIDS: evidence from panel causality tests”, MPRA Paper No. 33438.

Akhilesh Sharma et al, 2012, “FDI an instrument of economic growth and development in tourism industry”, International Journal of Scientific and Research Publications, Volume 2, Issue 10, pp.1-6.