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Fdi in tourism sector in India

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Abstract

FDI in India has been an integral component of economic development strategy in post globalization and liberalization phase. FDI is very important for generating employment opportunities, increasing the standard of life, introducing new and advanced technology, increasing foreign exchange of the country and sustainability. In this paper, we will make an attempt to study the FDI trends in tourism sector in recent years and its effect on Indian economy. Further the positive and negative aspects of FDI will be also discussed. Also different government policies to attract more and more FDI in this sector will be also discussed.

Keywords: FDI, GDP, FII, balance of payment, medical tourism, foreign exchange, mice tourism, bio geographic zones.

1. Introduction

Foreign direct investment (FDI) is flows of capital from one nation to another nation in exchange for significant ownership in domestic companies or domestic assets. There are two types of foreign direct investments (FDI) that play a very important role in the growth of economy; foreign direct investment (FDI) and Foreign Institutional Investment (FII).

FDI is investment of foreign assets into domestic structures, assets, equipment's and organizations. FDI inflows are into the primary market and do not include foreign investments into the stock markets. It is a long term investment and is used by the developing countries as a source of their economic development, productivity growth to improve balance of payments and employment generation. Its aim is to increase the productivity by utilizing the resources to their maximum efficiency. Exit is relatively difficult in this phenomenon.

Foreign Institutional Investments (FII) denotes all those investors or investment companies that are not located within the territory of the country in which they are investing. It is generally a short term investment and invests only the financial assets. FII inflows are only into the secondary market (stock exchanges) with an aim to increase the capital inflows. Exit is relatively easier in FII.

As both the types of investments are important for India but for a long term economic growth, Indian government should focus on FDI as compared to FII. As it has been proved that due to low exit barriers in FII, the foreign investors can exit from Indian market whenever they want, resulting in crash in the Indian stock markets.

Positive Effects of FDI:

- a. It increases the foreign exchange of the host country.
- b. Countries receiving foreign direct investment (FDI) often experience higher economic growth by opening it up to new markets as seen in many emerging economies.
- c. It creates jobs and employment. Most of the FDI are aimed at creating new business in the host country which in turn results in the creation of new jobs with higher wages.
- d. FDI often introduces world class technology, technical expertise to developing countries.
- e. World class infrastructure is developed such as buildings, roads and other civic amenities.
- f. The equipment and facilities provided by the investor can increase the productivity of the workforce in the target country.
- g. Developing countries which invite FDI can gain access to a wider global and better platform in the world economy.

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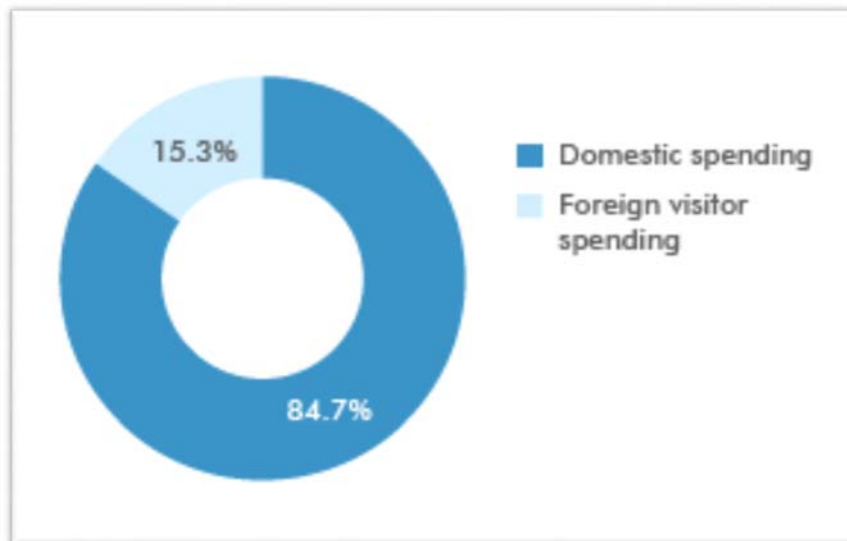
Negative Effects of FDI:

- a. Once the FDI becomes profitable, it begins the flow of capital from host countries to the investor’s country.
- b. It disrupts the local industry. There is some concern that FDI may disrupt local industry and economics by attracting the best workers and creating income disparity.
- c. FDI in some sectors like defence is a cause of concern.
- d. Excessive construction or development at certain fragile tourist spots can cause adverse ecological impacts.
- e. Occasionally as a result of foreign direct investment exchange rates will be affected, to the advantage of one country and the detriment of the other.
- f. Foreign direct investment may be capital-intensive from the investor’s point of view, and therefore sometimes high-risk or economically non-viable.
- g. The rules governing foreign direct investment and exchange rates may negatively affect the investing country.
- h. Foreign direct investment can sometimes hinder domestic investment, as it focuses resources elsewhere.

FDI in Tourism Sector in India:

Tourism sector hold good potential for Indian economy. It can provide impetus to other industries through forward and backward linkages and can generate huge revenue earnings from the country. Tourism and Hospitality is the key sector of Indian economy and it plays important role in its economic growth. Tourism generates about 12.4% of the total employment in India. The tourism and hospitality sector

in India is highly optimistic with a large number of hotel chains having laid up their expansion plans. According to the latest statistics, the Indian hospitality sector has an annual growth of 14% per year. The number of foreign tourist arrivals has increased and has reached up to 6.58 million from January to November 2014. This results in the growth of foreign exchange earnings by 5.2% in 2014 as compared to 4.9% in 2013. India’s travel and tourism industry has a huge potential. According to estimates, medical tourism in India it to hit U.S \$ 3.9 billion in 2015. Also inflow of medical tourists is expected to cross 320 million by 2015 compared with 85 million in 2012. The total market size of the tourism and hospitality industry in India stood at US\$ 117.7 billion in 2011 and is anticipated to touch US\$ 418.9 billion by 2022. FTAs during the period January-June 2014 stood at 3.54 million as compared to FTAs of 3.36 million during the corresponding period of 2013, registering a growth of 4.5 per cent. FTAs during June 2014 were 492,000 as compared to 451,000 during June 2013, a growth of 11.5 per cent. Foreign exchange earnings (FEE) during January-June 2014 stood at Rs 56,760 crore (US\$ 9.44 billion) as compared to FEEs of Rs 51,587 crore (US\$ 8.58 billion) during the same period last year, registering a growth of 17.9 per cent. FEEs during June 2014 were Rs 8,458 crore (US\$ 1.41 billion). The number of tourists availing the tourist Visa on Arrival (VOA) scheme during January-June 2014 have recorded a growth of 28.1 per cent. During the period, a total number of 11,953 VOAs have been issued as compared to 9,328 VOAs during the corresponding period of 2013.



Expected Share of Tourists by Expenditure in India

It is the intent and objective of the government of India to attract and promote FDI in order to supplement domestic capital, technology, and skills for accelerated economic growth. Foreign Direct investment in India increased to \$ 3459 million in December of 2014 from \$ 1767 million in November 2014. FDI in

India averaged \$ 1027.46 million from 1995 until 2014, reaching an all-time high of \$ 5670 million in February 2008 and a record low of \$ 60 million in February 2014. FDI in India is reported by R.B.I.

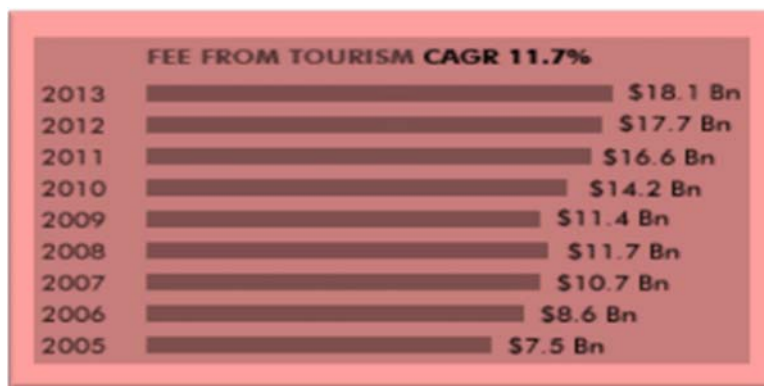


FDI in India from January 2014 TO JANUARY 2015

The tourism and hospitality sector in India is among top 10 sectors to attract highest FDI. In India, 100% FDI is permissible in tourism sector on the automatic route – allowing full FDI into all construction development projects include construction of hotels and resorts, recreational facilities and city and regional level infrastructure. 100% FDI is now allowed in all airport expansion projects, subject to the condition that FDI for up gradation of existing airports require FDI promotion board (FIPB) approval beyond 74%. A five year tax holiday has been given to organizations that set up hotels, resorts and convention canters at specific destinations subject to fulfilment with the agreed conditions. Some major players in tourism industries such as Cabana Hotels, Premier Travel Inn (PTI), Inter-Continental Hotels Group, Hilton, Accor, Mariot, International Berggreen Hotels, etc. have announced major venture plans in India. With the rise in the number of global tourists and realising India’s potential, many companies have invested in the tourism and hospitality sector. Some of the recent investments in this sector are as follows:

- Seeking to tap the opportunity, global hospitality major Carlson Rezidor Hotel Group announced that it would have over 50 operational Park Inn by Radisson properties in India by 2024.
- Starwood Hotels & Resorts has announced plans to have up to 65 operational properties by end of 2015 in India. It currently operates 39 hotels in India under six brands, including Luxury Collection, Westin, Sheraton, Le Meridien, Four Points by Sheraton and aloft. It is looking to have a total of 100 hotels in its Indian portfolio by 2015.

- Luxury hotels chain Kempinski has also announced plans to operate three new hotels in India by 2020 in Kolkata, Mumbai and Kerala if the on-going negotiations were successful.
- InterGlobe Hotels has announced the opening of ibis brand hotel in Delhi with plans to have 19 ibis hotels operational in India by 2016.
- Lemon Tree Hotel Company has also announced plans to invest around Rs 4,500 crore (US\$ 730.51 million) to add 5,200 rooms across India in the next four years. "Our ramp-up will include rooms in our upscale brand Lemon Tree Premier, mid-scale brand Lemon Tree Hotels and economy brand Red Fox," said Mr Sumant Jaidka, COO, and Lemon Tree Hotels.
- India's largest integrated travel company Thomas Cook's human resources and staffing arm Ikya Group plans to buy Hofincons InfoTech and Industrial Services. The deal is estimated to be valued around Rs 75-100 crore (US\$ 12.47-16.63 million).
- Hyatt has announced the opening of Hyatt Raipur, its sixth Hyatt-branded property in India. "We are delighted to introduce the first Hyatt-branded hotel to Raipur. Hyatt hotels are intimate, upscale hotels that offer authentic hospitality in a vibrant environment," as per Mr Pablo Graf, Senior Vice President -Operations, Hyatt Hotels & Resorts, South West Asia.
- Oberoi Realty plans to bring iconic luxury brand Ritz-Carlton to Mumbai. The American brand hotel is being planned in Worli and is expected to come up by 2016 at a cost of Rs 750 crore (US\$ 124.75million).
- Movenpick Hotels and Resorts have signed a management agreement to operate a new hotel in Kochi, its third property in India. The hotel will be owned by ITMA Hotels India Pvt Ltd, an associate company of Jomer Properties and Investments.

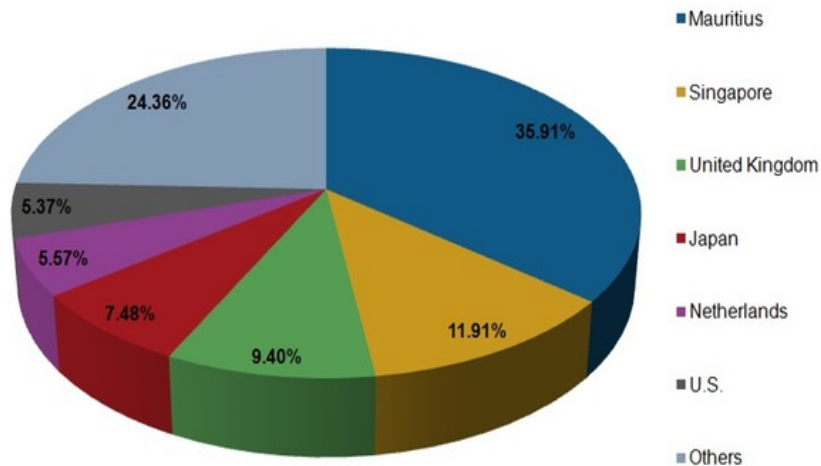


Foreign Exchange Earnings from Tourism in India

According to ministry of state tourism, the government has set to achieve target of 1% share in global tourism arrivals by 2015. According to it, the focus of the government is on improving the cleanliness, hospitality and safety aspects of tourism. According

to department of industrial policy and promotion (DIPP), tourism is the 3rd largest foreign exchange earner after Gems, Jewellery and readymade garments. Among the top countries which invest in India are:-

**Country-wise FDI equity inflows in India
(April 2000 - August 2014)**



Market Realist[®]

Source: Department of Industrial Policy & Promotion, Government of India

The contribution of tourism sector in country's GDP is continuously increasing which is a very good indication. The following diagram shows the contribution of tourism and hospitality sector and also expected growth up to 2024.



Contribution of Tourism and Hospitality Sector in India's Gdp

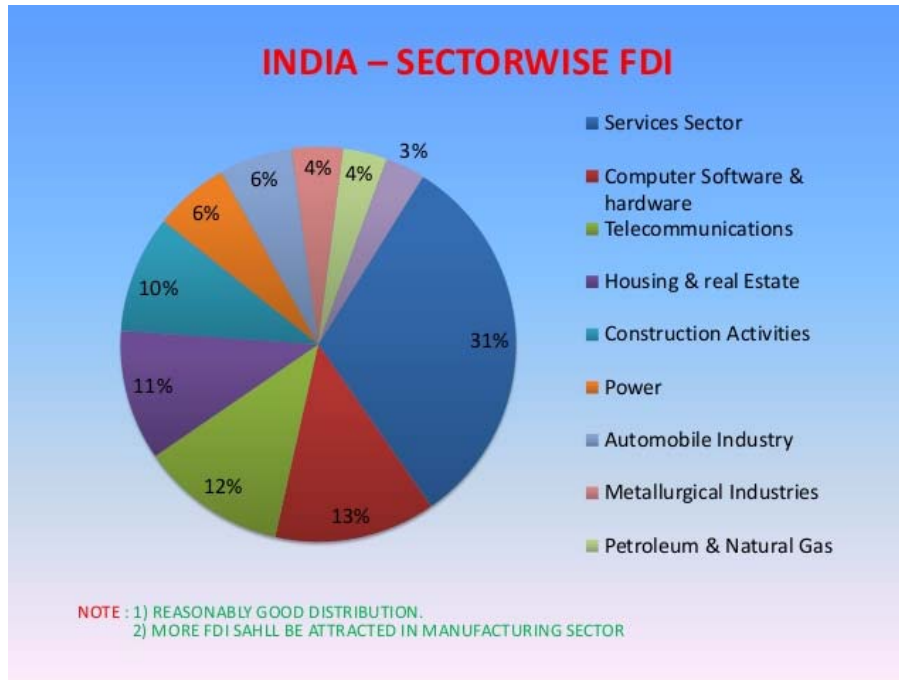
Reasons to Invest In Tourism Sector in India:

- a. India has more than one billion domestic travellers and is continuously growing.
- b. India has 30 world heritage sites.
- c. India has 21 hotel management institutes.
- d. India has 25 bio geographical zones and about 25 world class beaches.
- e. Tourism in India accounts for about 7% of the GDP.
- f. India is the 16th most visited country in the world, with a share of about 1.56% in the world tourism receipts.
- g. India offers geographical diversity, attractive beaches, diverse cultures and religions.
- h. India is having one of the seven wonders of modern world i.e. THE TAJ MAHAL.
- i. India has diverse portfolios Niche tourism products- cruises, adventure, wellness, sports, MICE, eco-tourism, film, golf, polo rural and religious tourism.
- j. Economic liberalization has given a new boost to the tourism industry.
- k. Due to economic, political and social stability, it attracts investments.
- l. Attractive and investor friendly policies in this sector.
- m. An increasingly growing middle class group, the arrival of corporate incentive travel and multinational companies into India has brightened prospectus for tourism.
- n. The Indian hospitality industry is increasing at a rate of 15 per cent yearly. The current gap between supply and demand is predicted to grow as the economy opens and grows.

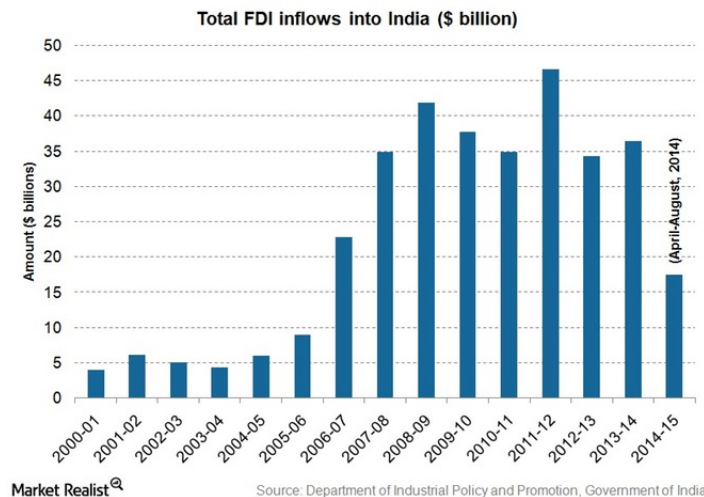
- o. The government predicted an additional requirement of 200,000 rooms in the next five years.
- p. The present government in its process has taken a few projects like opening of the partial sky policy. This allows private domestic airline operators to fly on the Indian skies.
- q. The 5 star hotel sector has increased the fastest during the last five years at a CAGR of 12 per cent. 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.

- r. 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.



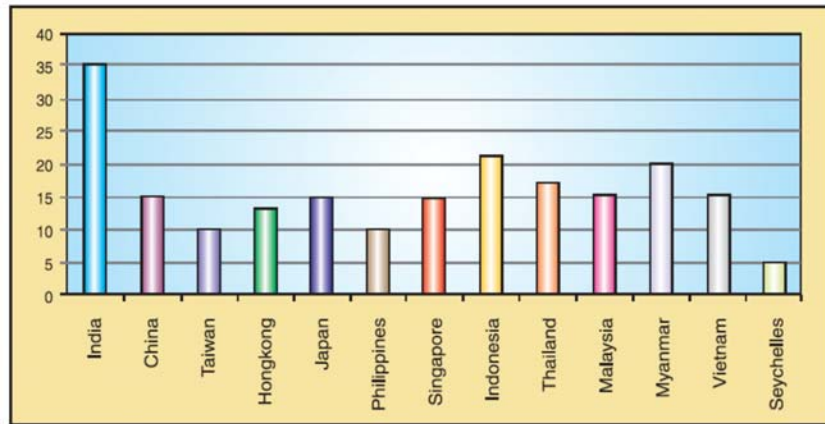
The following bar diagram shows the total FDI inflow in India from 2001 to august 2014



Reasons for Low FDI in Tourism in India:

- a. Among the Asia-Pacific regions, India has highest tax structure on tourism projects.
- b. In India we have multitude of central and state level taxes which lead to increased cost to the tourists.
- c. There is a huge delay in FDI approvals in the tourism sector by government.

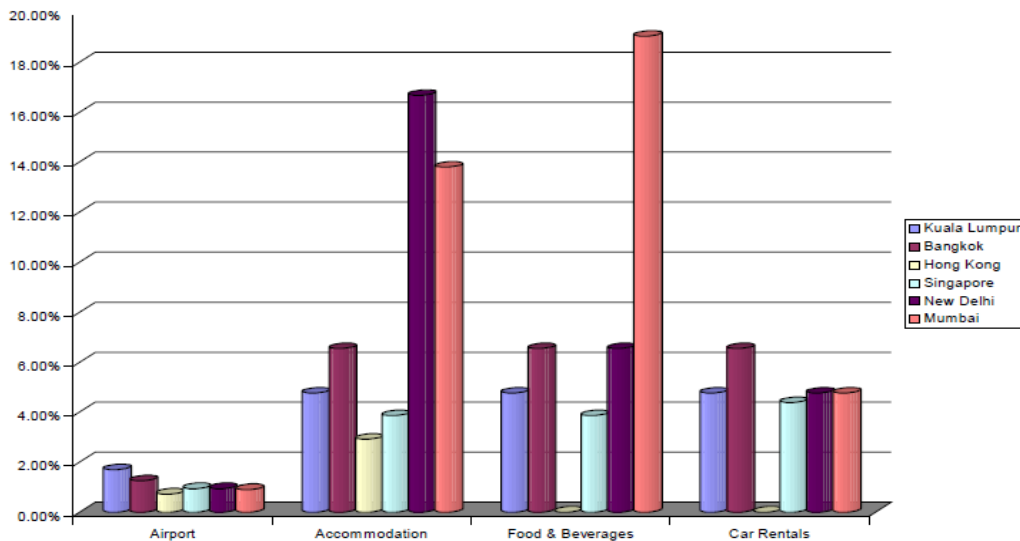
- d. In India, there is a big naxal problem in central Indian states known as Red Corridor. Similarly there is armed insurgency in north eastern states and J&K.
- e. In India there is still communal violence and tolerance for other religions and foreigners is still very less, which hampers the investment process.
- f. In India , the government imposes highest import duty on imported liquor used in hotels, which make it too expensive



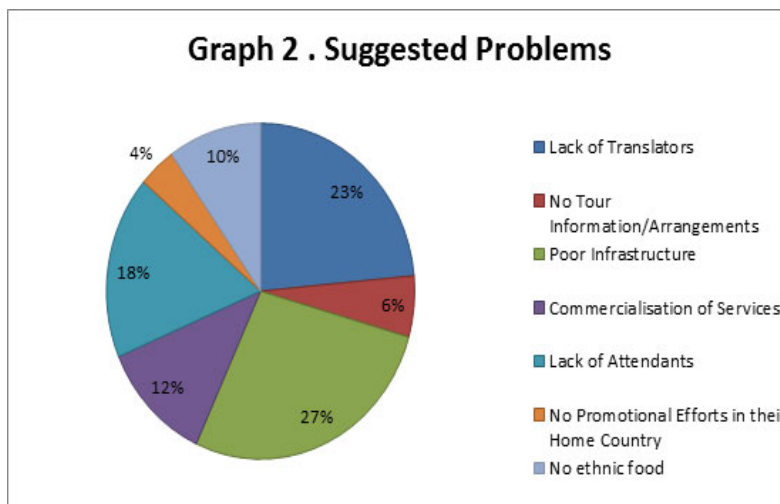
Corporate Taxes In Comparison With Other Tourist Destinations in Asia

- g. In India, the government imposes various kinds of service taxes to the tour operators and travel agencies, which in turn makes this industry a costly affair.
- h. Air connectivity and pricing are proven to be critical barriers in India's ability to become

competitive in the global tourist market. In the current context, domestic air travel is much more expensive than international destinations located at similar distance. The disparity between foreign travel tax and inland air travel tax (IATT) is one of the major factors.



Comparison of other tourism expenses with neighboring Asian Countries



The above chart shows main problems faced by tourists in India

Government Efforts to Boost Tourism Industry:

The Ministry of Tourism has been making efforts to develop quality tourism infrastructure at tourist destinations and circuits in the country. It has sanctioned Rs 4,090.31 crore (US\$ 680.52 million) for a total number of 1,226 tourism projects, which includes projects related to Product/Infrastructure Development for Destination and Circuits (PIDDC), Human Resource Development (HRD), Fairs and Festivals, and Adventure and Rural Tourism for infrastructure augmentation. The Ministry of Tourism has been making efforts to develop quality tourism infrastructure at tourist destinations and circuits in the country. It has sanctioned Rs 4,090.31 crore (US\$ 680.52 million) for a total number of 1,226 tourism projects, which includes projects related to Product/Infrastructure Development for Destination and Circuits (PIDDC), Human Resource Development (HRD), Fairs and Festivals, and Adventure and Rural Tourism for infrastructure augmentation. The government's decision to introduce the electronic visa facility (e-Visa) will give a much needed boost to inbound travel in India. Enforcing the electronic travel authorisation (ETA) before the next tourism season, which starts in November, will result in a clear jump of at least 15 per cent, and this is only the start, as per Mr Madhavan Menon, Managing Director, Thomas Cook India. The hospitality sector in India expects 52,000 new hotel rooms to be added in five years (2013-17), according to a survey by Cushman & Wakefield. This will lead to a rise of over 65 per cent in total hotel inventory in India. The National Capital Region (NCR) is expected to contribute around one-third to the total expected hotel rooms supply during the period. According to a recent survey by Monster Employment Index, the travel and tourism sector in India has seen a 40 per cent jump in employment in June 2014 compared to the same period last year. In 2013, the travel and tourism sector in India generated 35 million jobs, noted the WTTC report. Introduction of visa on arrival (VOA) and e-visas has boosted tourism in India. Plans to introduce new airports in tier I and tier II cities will attract more tourists. Electronic Travel Authorization (ETA), lifting restriction on gaps for re-entry will give edge to the tourism sector. The contribution of tourism in the GDP is about seven per cent and the government wants to double it. A total of 25,023 arrived by availing visa on arrival (VOA) in January 2015.

An amount of Rs 1,573.07 crore has been earmarked for the tourism ministry for 2015-16, giving it a rise of 33 per cent over last fiscal's allocation, in the union budget presented. Plan expenditure allocation for 2015-2016 is Rs 1,573.07 crore against last year's Rs 1,182.99 crore. Finance minister Arun Jaitley while presenting the budget in parliament made a major announcement to boost Indian tourism sector, proposing to increase cover for visa on arrival (VoA) facility to 150 countries against 43. "Last year VoA was issued to 43 countries. As tourism in the country has increased, I propose to increase the countries covered under this to 150," he said. The government had eased Indian tourism visa regime through the expansion of VoA enabled by electronic travel authorization (ETA) and extended this facility to tourists from countries like the US, Israel, Palestine and Japan to boost tourism sector. This hassle-free process has given a fillip to Indian tourism whose share in world tourism is a paltry 0.6 per cent of international tourist arrivals compared to 7.8 per cent in France and 6.4 per cent in the US. Development schemes for churches and convents in old Goa; Hampi, Elephanta caves, Forests of Rajasthan, Leh palace, Varanasi, Jallianwala Bagh, Qutb Shahi tombs at Hyderabad to be under the new tourism scheme.

Conclusion:

FDI plays a very important role in expanding the world class tourism sector in India. There is a need of preparing appropriate policies and hassle free procedures to attract more and more investments. The tourism sector is now becoming one of the main contributors to India's GDP and employment. The study shows that there has been a remarkable increase in FDI in India. No doubt that there are some factors limiting the flow of FDI in India, but Indian economy is growing day by day.

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