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## Future Perspective of Tourism Industry In India and Impact of FDI

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**Abstract:** 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. India has become one of the worlds promising tourist destination with large number of visitors each year for its diverse climatic features and heritage cultures. It has a dramatic growth of tourism over the last 25 years and it is one of the most remarkable economic changes. India is the only country that offers different categories of tourism year by year to the visitors. The Indian government decided to increase revenues from the tourism sector by projecting India as the "ultimate tourist spot". So there is no doubt that the development of tourism industry in India is very strong in the next ten years. 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.

**Key words:** Tourism, FDI, Foreign exchange, LGBT citizen, Challenges, Incredible India.

### Introduction

India is proud to have over 30 World Heritage Sites spread over the length and breadth of the country. They are so diverse with each site offering something unique to the tourist to savour. These can be better marketed to draw leisure tourists who wish to catch a glimpse of our varied and rich cultural history. In more modern terms, the presence of highly skilled medical doctors and relatively inexpensive ( as compared to other countries) medical facilities with high-class hospitals paves the way for a huge growth in what has come to be known as "medical tourism".

The Swachh Bharat campaign is still in a nascent stage but should show positive results over the next few years. The tourists can enjoy different kind of tourism i.e; *Eco Tourism, Health Tourism, Adventure Tourism, Cultural Tourism, Heritage Tourism, Wildlife Tourism, Religious tourism, etc.* Only in India the tourists can enjoy all these kinds of tourism together. The survey according to FICCI (Federation of Indian Chambers of Commerce and Industry) states that there is a very bright future for the tourism industry in India. India has always been known for its diverse climate, hospitality, uniqueness etc this is the reason why India has been doing well in all types of tourism in India.

The tourism sector is one of them. Tourism accounts for 6.8% of India's GDP and is the third largest earner of foreign exchange with earnings of \$18.13 billion in 2013. India ranks 42 in foreign tourists arrivals as per the United Nations World Tourist Organisation. If many in the world still have a picture of India being a dirty and often unsafe place, they have only half the story. There has been considerable progress since the days when India was seen as a land of beggars, snake charmers and elephants. Admittedly there's much we need to do to get rid of this image by enhancing levels of hygiene and security especially for women visitors, but we have been blessed with many positives. For the first time in our history, a nationwide Government backed initiative close to the heart of our Prime Minister has been launched for a Clean India.

It is delighted to see considerable progress made in branding, which is so crucial in the business of selling India as a travel destination. "Incredible India" and "Atithi Devo Bhava" ("Consider the Guest as God") are campaigns which have highlighted what India has to offer. It is commendable that Tourism finds a place in the "Make in India" campaign launched by the present Government

under Prime Minister Narendra Modi. This comes out of recognition that this sector can in turn help alleviate poverty and enhance skill development as many jobs can be created through growth in the tourism and hospitality industry.

### **Current Status of Tourism Sector in India**

Foreign investors have many incentives to set up their hotels and hospitality business ventures in India. 100 % Foreign Direct Investment (FDI) is permitted in this sector. This will enable international hotel chains to bring with them their expertise and get economies of scale as the sector develops. Our country has so much to offer by way of natural beauty. We need to develop the infrastructure to support tourist destinations so that more people from India and from abroad can visit these places. The nature of tourism investment and lack of engagement of the poor can cause much tourism spending to leak away from poor destinations. The income that remains may not end up benefiting the poor, reaching instead the better educated and well-off segments of society.

Performance of 2016 as well as unique 10-year forecasts on the sector's potential. Despite the ever-increasing and unpredictable shocks from terrorist attacks and political instability, to health pandemics and natural disasters, Travel & Tourism continued to show its resilience in 2016, contributing direct GDP growth of 3.1% and supporting 6 million net additional jobs in the sector. In total, Travel & Tourism generated US\$7.6 trillion (10.2% of global GDP) and 292 million jobs in 2016, equivalent to 1 in 10 jobs in the global economy. The sector accounted for 6.6% of total global exports and almost 30% of total global service exports. For the sixth successive year, growth in Travel & Tourism outpaced that of the global economy (2.5%). Additionally in 2016, direct Travel & Tourism GDP growth not only outperformed the economy-wide growth recorded in 116 of the 185 countries covered by the annual economic impact research (including in major Travel & Tourism economies such as Australia, Canada, China, India, Mexico and South Africa), but it also was stronger than the growth recorded in the financial and business services, manufacturing, public services, retail and distribution, and transport sectors.

### **Future Possibilities in Tourism Sector in India**

The outlook for the Travel & Tourism sector in 2017 remains robust and will continue to be at the forefront of wealth and employment creation in the global economy, despite the emergence of a number of challenging headwinds. Direct Travel & Tourism GDP growth is expected to accelerate to 3.8%, up from 3.1% in 2016. The United Nations had designated 2017 the International Year of Sustainable Tourism for Development. As one of the world's largest economic sectors, Travel & Tourism creates jobs, drives exports, and generates prosperity across the world. The International Year provides an enormous opportunity to further showcase the tremendous economic, social, cultural, environmental, and heritage value that the sector can bring. The right policy and investment decisions are only made with empirical evidence. For over 25 years, the World Travel & Tourism Council (WTTC) has been providing this evidence, quantifying the economic and employment impact of Travel & Tourism. This year, the 2017. As nations seem to be looking increasingly inward, putting in place barriers to trade and movement of people, the role of Travel & Tourism becomes even more significant, as an engine of economic development and as a vehicle for sharing cultures, creating peace, and building mutual understanding. Over the longer term, growth of the Travel & Tourism sector will continue to be strong so long as the investment and development takes place in an open and sustainable manner. Enacting pro-growth travel policies that share benefits more equitably can foster a talent and business environment necessary to enable Travel & Tourism to realise its potential. In doing so, not only can we expect the sector to support over 380 million jobs by 2027, but it will continue to grow its economic contribution, providing the rationale for the further protection of nature, habitats, and biodiversity. WTTC is proud to continue to provide the evidence base required in order to help both public and private bodies make the right decisions for the future growth of a sustainable Travel & Tourism sector.

### **CONTRIBUTION IN INDIAN GDP**

On a general level, it would be logical to assume that since rapid economic growth is making international travel a reality for vast numbers of consumers in countries such as China, India, Indonesia, Brazil, Mexico and Turkey, discretionary spending on travel by LGBT people in those countries would rise in line with that of the general population. However, according to the Open for Business Report cited earlier in this report, on a general level the discrimination present in many of the world's most rapidly emerging markets holds back LGBT individuals' potential to get proper access to healthcare, get good jobs and grow professionally or creates other factors that restrict their earning and spending potential. There is much that business and government must still do to secure rights for LGBT people so that they may flourish in society and realize this potential. Therefore, it follows that those countries that have made the most progress in terms of securing rights for their LGBT citizens present a more attractive place to market LGBT relevant goods and services since public discussion and promotion becomes easier.

Some emerging outbound markets could be considered attractive due to their considerable population size. By applying a conservative 3% LGBT population estimate to population figures obtained from the United Nations (2015 revision) the approximate LGBT population of China could be calculated at 48.3 million, India 39.3 million, Indonesia 7.7 million, Brazil 6.2 million, Russian Federation 4.1 million and Mexico 3.8 million. However caution must be exercised here. Each of these countries is very different in terms of economy, society, culture, demographics and political systems. Furthermore, within each country, age, place of origin, income, family, ethnic and religious background can influence heavily one's economic potential and experience as an LGBT citizen.

In many countries, tourism acts as an engine for development through foreign exchange earnings and the creation of direct and indirect employment. Tourism contributes 5% of the world's GDP. It accounts for 6% of the world's exports in services being the fourth largest export sector after fuels, chemicals and automotive products. Tourism is responsible for 235 million jobs or one in every 12 jobs worldwide. Tourism in many developing and least developed countries is the most viable and sustainable economic development option, and in some countries, the main source of foreign exchange earnings. Part of this income trickles down to different groups of the society and, if tourism is managed with a strong focus on poverty alleviation, it can directly benefit the poorer groups through employment of local people in tourism enterprises, goods and services provided to tourists, or the running of small and community-based enterprises, etc, having positive impacts on reducing poverty levels. Tourism is a relatively labour intensive sector and is traditionally made up of small and micro enterprises. Many activities in tourism are particularly suited to women, young people and disadvantaged groups such as ethnic minority populations. Many tourism jobs are potentially quite accessible to the poor as they require relatively few skills and little investment. Some may also be part time and used to supplement income from other activities. As so many different activities and inputs make up the tourism product, which has a large and diversified supply chain, spending by tourists can benefit a wide range of sectors such as agriculture, handicrafts, transport and other services. Additional rounds of spending by those people whose income is supported by tourism spread the economic benefit further (the multiplier effect). Tourism, unusually, is an activity which brings the consumers to the producers. The interaction between tourists and poor communities can provide a number of intangible and practical benefits. These can range from increased awareness of cultural, environmental, and economic issues and values, on both sides, to mutual benefits from improved local investment in infrastructure.

### **FDI IN TOURISM SECTOR IN INDIA**

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.

- 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 of FDI in Tourism sector in India

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. India, with 33.99% rate of corporate tax, is one among twenty countries in the world who have highest top marginal Corporate Tax Rates. High taxes structure leads to high cost of tourism in the country which is a reason of low competitive position of India. 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.

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. 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.

### Conclusion

India's travel and tourism sector ranks 7th in the world in terms of its total contribution to the country's GDP, according to a new report of the World Travel and Tourism Council (WTTC). According to data, the travel and tourism sector generated Rs 14.1 trillion (USD208.9 billion) in 2016, which is world's 7th largest in terms of absolute size; the sum is equivalent to 9.6% of India's GDP. Additionally, the sector created 40.3 million jobs in 2016, which ranks India 2nd in the world in terms of total employment generated. The sector accounts for 9.3% of the country's total jobs. India's Travel and Tourism sector was also the fastest growing amongst the G20 countries, growing by 8.5% in 2016. A further 6.7% growth is forecast for 2017. As travel and tourism marketing has shifted online, destinations have increasingly found themselves competing in a global marketplace. Over the past six decades, almost without interruption, the volume of cross-border travel has increased year-on-year, and today travellers are able to access their chosen destinations more easily. In order to stand out, those responsible for destination marketing have sought to make their destinations attractive to emerging consumer segments, particularly those segments of the market that are perceived to travel more frequently and exhibit higher levels of spending than others. Tourism is very sensitive to economic, environmental, and socio-political events affecting tourists' willingness to travel. In the absence of insurance cover and social security, the poor can be particularly vulnerable to sudden downswings in demand. However, tourism demand often bounces back quickly when circumstances change. If the Indian government is continue to adopt policies that encourage travellers, such as the new visa regime, enable investment in vital infrastructure, and allow companies to do business. India is a beautiful and diverse tourism destination, with the right policies in place it will no doubt continue to grow towards ranking even higher in terms of its tourism economy."

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.
- 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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