

Role of Foreign Direct Investment in India's Tourism Sector (With References to 2000-2014)

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ABSTRACT

Tourism industry is a key driver of economic growth in India. FDI in hotel and tourism industry has led to Economics growth as well as employment generation in India. This paper attempts to examine impact of FDI in tourism industry on the contribution of tourism industry in nation's GDP and Employment. The data has been collected from the website of department of industrial policy and promotion (DIIP), SIA newsletter and other official's websites. Regression analysis is applied to assess the impact of FDI in tourism industry on the contribution of tourism industry in nation's GDP. Result shows that p-value from ANOVA table is 0.025 which is less than 0.05, that means FDI in tourism industry has positive impact and this industry has valuable contribution towards the nation's GDP.

Keywords: Economics & Inclusive Growth, Employment, Foreign direct Investment, Indian Economy, Travel Trade

INTRODUCTION AND LITERATURE REVIEW

While talking about Indian economy, the 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. We often come across the term called "inclusive growth" which means growth that benefits every individual but in a country like India where income disparity is very high, it becomes very difficult to achieve the aim of inclusive growth and further the urban centric development makes it more challenging. The lack of infrastructure and job opportunity in rural area keeps India way behind in terms of inclusive growth. Therefore, in order to achieve the aim of inclusive growth there is a need to initiate the process of development of skill based industries like tourism. The tourism industry includes, tour operating agencies travel agencies and tourist transport operating agencies, units providing facilities for cultural, adventure and wild life experience to tourists, surface, air and water transport facilities to tourists, leisure, entertainment, amusement, sports, and health units for tourists and Convention/Seminar units and organizations. The total size of tourism industry is expected to reach US\$418.9 billion by 2022 and tourism contribution to world's GDP has risen to 9.8 percent of

world’s GDP (US\$7.6 trillion) and provides employment to 277 million people (WTTC Reports). As per World Economic Forum, India, published report “The Travel and Tourism Competitiveness Report, 2015, reveals that India takes 52nd place overall. Travel and trade already accounts for 5% of India’s employment and its huge potential for further growth is made visible by comparing the country’s seven million international visitors in past year. India’s relevance as business travel destination is increasing along with its economic growth, it remains a price-competitive destination (8th) and recent changes in its visa regime: not yet reflected in the data rankings—have the potential to boost international arrivals. There is a big gap between developing and developed nation which can be bridge through tourism industry. The FDI in tourism is one of the ways to bridge the gap. Foreign direct investment is defined as foreign investors stirring their assets into another country where they have control over the management of assets and profits. FDI will benefit the economy and contribution of tourism sector to GDP will also upsurge. FDI in tourism sector also calls for parallel FDI in infrastructure which will really going to help the tourism and hospitality sector to develop. The government does not have ample of resource to initiate the entire process of development and cannot take the entire responsibility on its shoulder for tourism development hence there is a need to invite private and foreign player. The government of India has opened up 100 percent FDI by automatic route in construction development project including construction of hotels and resorts, recreational facilities and city and regional level infrastructure. The Prime Minister of India has dispensed higher priority to the tourism industry. India is a country of rich cultural heritage and diversity in religion which provides it immense opportunity to develop tourism industry. The linking of Buddhist tourism with Indian railways through special trains and package will definitely encourage the pilgrimage tourism. The foreign exchange earning has grown at 13% compounded annual growth rate and expected to reach US\$26 billion in 2015(ASSOCHAM). The tourism sector has emerged as 4th biggest foreign exchange earner and it helps in improving the high current account deficit.

The Travel & Tourism Competitiveness Index

| Rank | (out of 141) | Score (1–7) |
|--|---------------------|--------------------|
| Travel & Tourism Competitiveness Index | 52 | 4.02 |
| Enabling Environment | 115 | 3.80 |
| Business Environment | 107 | 4.02 |
| Safety and Security | 129 | 3.82 |
| Health and Hygiene | 106 | 4.32 |
| Human Resources and Labour Market..... | 111 | 4.03 |
| ICT Readiness | 114 | 2.83 |
| T&T Policy and Enabling Conditions | 92 | 3.93 |
| Prioritization of Travel & Tourism..... | 96 | 4.14 |
| International Openness | 69 | 3.08 |
| Price Competitiveness | 8 | 5.59 |
| Environmental Sustainability..... | 139 | 2.89 |
| Infrastructure | 67 | 3.60 |
| Air Transport Infrastructure | 35 | 3.88 |
| Ground and Port Infrastructure | 50 | 4.02 |
| Tourist Service Infrastructure | 109 | 2.90 |

| | | |
|---|----|------|
| Natural and Cultural Resources..... | 12 | 4.75 |
| Natural Resources..... | 17 | 4.42 |
| Cultural Resources and Business Travel..... | 10 | 5.09 |

Subbarao (2008) emphasized that tourism provide momentum to other industries through forward and backward linkages which in turn generates huge revenue for the country and he endorsed that government policies should focus on increasing tourist arrival and investment in tourism infrastructure through tax holidays. Selvanathan, Selvanathan and Viswanathan (2009) the finding shows that FDI has a causal effect on the number of foreign tourist arrivals in India. They emphasized appropriate policies to explore tourism resources and plans to develop new tourist destinations 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. Othman, Salleh and Sarmidi (2012) in their research paper investigated the relationship between development of tourism industry (ARR), economic growth (GDP) and FDI (PLA). The result indicates that there is a significant relationship between ARR and GDP, while the relationship between PLA and GDP is not so significant. The relationship between ARR and PLA is not so significant which also highlights limitation in availability of FDI data, which does not specifically show the amount invested in tourism industry. Sharma and Chauhan (2012) in their study explained that FDI exerts larger impact on an economy in the short run and real impact in the long run further they explained how sport like IPL and commonwealth have created a great demand for tourism and hospitality industry in India. Samimi, Sadeghi and Sadeghi (2013) they investigated the existence of Granger causality and co-integrated relationships between tourism related Foreign Direct Investment (FDI) and tourism development in developing countries using panel VECM techniques from 1995 to 2008. The result indicates that there is a co-integrated relationship between tourism related FDI and tourism growth in long-run but no short-term causality between variables further it is proved that there is a significant impact of tourism related FDI on the tourism growth in developing countries.

OBJECTIVES OF THE STUDY

- To analyze the impact of FDI in tourism on tourism's contribution to GDP.
- To study the factors driving growth of tourism industry in India.

RESEARCH METHODOLOGY

The present study is mainly based on secondary data collected from various reports and websites of government of India. In this study, the data of fifteen years (2000-2014) of FDI influx and tourism contribution to GDP in India have been taken, testify the associations between these two variables by using correlation model. The growth in the inflow of FDI in tourism and hospitality sector and its contribution towards GDP has been measured by using regression analysis. Further the mean value and standard deviation methods have also been used for the purpose of the study.

Foreign Direct Investment in Tourism Industry and its Contributions towards GDP

The inflow of FDI in tourism and hospitality sector to India is an independent variable, whereas tourism contribution to GDP in India is dependent variable(*Table 1.5*).

The regression analysis of the above tabulated data depict that the p-value in the ANOVA table is 0.025 which is less than 0.05 which means there is a significant impact of FDI inflow in tourism and hospitality industry to India on tourism sector's contribution to GDP(Appendix 3).The coefficient of correlation between FDI inflow in tourism and hospitality industry to India on tourism sector's contribution to GDP is 0.575 which means that 1 percent change in the inflow of FDI will bring 0.575 percent change in the GDP. The coefficient of determination (r-square) is 0.331, implies that only 33.1% variation in the tourism contribution to the GDP is explained by the FDI inflows in tourism sector of India. The rest of the variations i.e. 66.9% of the variation are due to some other factors (Appendix 3).

Table 1.5

| Year | FDI Inflows (INR in Millions) | Tourism Contribution to GDP (INR in Millions) |
|---------------------|----------------------------------|---|
| 2000 | 524.0 | 1983660 |
| 2001 | 471.54 | 1693280 |
| 2002 | 2237.89 | 2072370 |
| 2003 | 2594.21 | 2429060 |
| 2004 | 1527.23 | 2738790 |
| 2005 | 2799.59 | 2499640 |
| 2006 | 8174.86 | 2953630 |
| 2007 | 10581.23 | 3475650 |
| 2008 | 28715.75 | 4014080 |
| 2009 | 28885.39 | 4130660 |
| 2010 | 22790.82 | 4768450 |
| 2011 | 41933.66 | 5686440 |
| 2012 | 180966.16 | 6385130 |
| 2013 | 22320.33 | 7416140 |
| 2014 | 48652.88 | 8488330 |
| Mean | 26878.37 | 4049021 |
| St deviation | 45446.48 | 2099346 |

Source: Data has been compiled from DIPP, SIA News Letter and knoema.com

Factors Driving the Growth of Tourism Industry

- As per NCAER study (2011), the middle class will touch 267 Millions in next five years. As per the findings, the percentage of the middle class in the country's total population will increase to 20.3 percent by 2015-16 and 37.2 percent by 2025-26, which provides immense opportunities tourism industry to grow up. The increase in per-capita income from Rs 6,699 (\$107.75) per month to Rs 7,378.17 (\$118.68).
- India is a country which has diversity in culture and religion. This cultural and geographical diversity is an asset for India. The term culture connotes the beliefs, arts, mores, values, traditions, customs, food habits, religious beliefs and various behavioral traits needed to survive in a given geographical environment. Being a country with rich heritage, famous tourist destination such as Humayun tomb, Red fort, QutubMinar in Delhi, Taj Mahal in Agra added to the beauty of India.
- The Government of India has introduced various campaigns such as "Incredible India", "Athitidevo bhava", "padharomahredesh" and these punchlines are helpful in improving the image of India at global level. The Government has also permitted 100% FDI in tourism and hospitality through automatic route. The visa on arrival facility, medical visa facilities appeals to the foreign tourists which act as key driver of tourism growth.

CONCLUSION

FDI in tourism sector is important factor which can bring inclusive growth in country like India and helpful for bringing income parity. Tourism is a key engine of development which can bring prosperity in under developed states. FDI in tourism will not only provide employment but also helpful in creation of high class infrastructure. As per our findings the FDI inflows in tourism to India has a significant impact on the tourism contribution to the GDP in India. The r-square is 0.33 which means 33% variation in tourism contribution to GDP is explained by FDI inflows in tourism sector. So the role of FDI cannot be ignored and there is a significant need to encourage more FDI in hotel and tourism industry.

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Appendix 1
Descriptive Statistics

| | Mean | Std. Deviation | N |
|--|----------|----------------|----|
| Tourism contribution to GDP (in million) | 4.0490E6 | 2.09935E6 | 15 |
| FDI inflows in tourism industry to India(Rs in millions) | 2.6878E4 | 45446.48276 | 15 |

Appendix 2
Correlations

| | | Tourism contribution to GDP (in million) | FDI inflows in tourism industry to India(Rs in millions) |
|---------------------|--|--|--|
| Pearson Correlation | Tourism contribution to GDP (in million) | 1.000 | .575 |
| | FDI inflows in tourism industry to India(Rs in millions) | .575 | 1.000 |
| Sig. (1-tailed) | Tourism contribution to GDP (in million) | . | .012 |
| | FDI inflows in tourism industry to India(Rs in millions) | .012 | . |
| N | Tourism contribution to GDP (in million) | 15 | 15 |
| | FDI inflows in tourism industry to India(Rs in millions) | 15 | 15 |

Appendix 3

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .575 ^a | .331 | .279 | 1.78231E6 | .331 | 6.424 | 1 | 13 | .025 |

a. Predictors: (Constant), FDI inflows in tourism industry to India(Rs in millions)

Appendix 4

Anova^b

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|--------------|----------------|----|-------------|-------|-------------------|
| 1 Regression | 2.041E13 | 1 | 2.041E13 | 6.424 | .025 ^a |
| Residual | 4.130E13 | 13 | 3.177E12 | | |
| Total | 6.170E13 | 14 | | | |

a. Predictors: (Constant), FDI inflows in tourism industry to India(Rs in millions)

b. Dependent Variable: Tourism contribution to GDP (in million)

Appendix 5

Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|--|-----------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | Beta | | |
| 1 (Constant) | 3.335E6 | 539577.049 | | 6.181 | .000 |
| FDI inflows in tourism industry to India(Rs in millions) | 26.565 | 10.481 | .575 | 2.534 | .025 |

a. Dependent Variable: Tourism contribution to GDP (in million)