Foreign Direct Investment (FDI) and its Impact on Hotel and Tourism Services in India

A. Muthusamy, Aravindaraj. K

Abstract: The Foreign Direct Investment (FDI) is required for a country, when domestic capital is inadequate for the purpose of enhancing economic growth. India needs substantial foreign capital inflows to achieve the economic growth and development. In an emerging economy like India, the Hotel & Tourism sector contributes significantly to the country’s GDP as well as Foreign Exchange Earnings (FEE). India has significant potential to become a preferred tourist destination globally. Its rich and diverse cultural heritage, abundant natural resources and biodiversity provides numerous tourist attractions. Since 1991, Foreign Direct Investment (FDI) to the developing countries has been the leading source of external financing and has become a key component of national development strategies for almost all the developing countries in the world. Foreign Direct Investment up to 100 percent is allowed in Hotel and Tourism sector under Automatic route. The contribution of FDI in Hotel & Tourism sector is stimulating the economic growth or not, this knowledge thrust of researcher creates the interest in conducting this study. In this paper, an attempt is made to review the concept of FDI and its impact on the Hotel & Tourism sector in India. The study is based on only secondary sources of data and it covers for the period of recent ten years. The study shows a positive correlation between Foreign Direct Investment Equity inflows and Foreign Exchange Earnings (FEE) and Gross Domestic Product (GDP) of Hotel & Tourism sector in India during the period of the study.

Keywords : Foreign Direct Investment, Economic Growth, Host Countries, Home Countries, Foreign Exchange Earnings, Gross Domestic Product.

I. INTRODUCTION
Foreign Direct Investment (FDI) to developing countries in the 1990s has been the leading source of external financing and has become a key component of national development strategies for almost all the countries in the world as a vehicle for technology flows and an important source of non-debt inflows for attaining competitive efficiency by creating a meaningful network of global interconnections. FDI provide opportunities to host countries to enhance their economic development and opens new opportunities to home countries to optimize their earnings by employing their ideal resources. The hotel and tourism sectors have been growing rapidly in recent years, bringing in huge revenues through overseas as well as domestic tourism. Tourism is the third largest revenue generators of foreign exchange for India and also employs one of the highest numbers in manpower.

Meaning of Foreign Direct Investment (FDI)
FDI means investment made by non-resident entity/person resident outside India in the capital of an Indian company under Schedule 1 of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations 2000. An Indian company may receive Foreign Direct Investment under the Automatic Route and Government Route.

Meaning of Hotel & Tourism
The term hotels include restaurants, beach resorts, and other tourist complexes providing accommodation and/or catering and food facilities to tourists. Hotels are an important component of the tourism product. Tourism related industry include travel agencies, tour operating 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.

FDI Limit and Entry Route
With a view to stimulate the foreign investments in this sector, the government has permitted 100 percent FDI in the automatic route –allowing full FDI into all construction development projects including construction of hotels and resorts, recreational facilities, and city and regional level infrastructure.

FDI in Indian Tourism Services
Foreign direct investment in tourism is a category of foreign investment whereby an entity resident in one economy 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).

II. RESEARCH PROBLEM
The Indian tourism sector is one of the largest service industries in the country in terms of its contribution to the gross domestic product,

Revised Manuscript Received on September 25, 2019
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Published By: Blue Eyes Intelligence Engineering & Sciences Publication
IIJRT
外资外汇收入以及提供就业。旅游业在印度正在见证对外来旅游的增长，这是由于政府对旅游业的大力支持。成功的国外旅游者和游客为旅游业产生了巨大的辐射作用。外资直接投资（FDI）有助于促进“神奇印度”的理念。外资直接投资（FDI）有助于解决低资本、低增长速度、未被开发的自然和人力资源、高通货膨胀率、高失业率、支付余额和其它结构和行政性僵化问题。这是多数国家的现状，特别是在印度，这些国家正在为吸引更多的外来旅游者和更多外国直接投资（FDI）而努力。因此，本文的研究目的是分析外资直接投资（FDI）流入对印度经济的影响。

III. RESEARCH METHODOLOGY

研究方法是分析性的，且分析使用了第二手数据。分析数据的数据形式是研究的核心部分。为了分析数据并得出结论，使用了各种统计工具，如Excel和SPSS软件。研究的时期是2009年到2018年。

IV. OBJECTIVES OF THE STUDY

- To analyse the concept of Foreign Direct Investment on the Hotel & Tourism services;
- To assess the impact of the Foreign Direct Investment on the Hotel & Tourism services of India

V. REVIEW OF EXISTING LITERATURE

外资直接投资的前景和趋势是由研究者采用的，它们是：

Padmasree. K and Bharathi Devi (2011)1，研究了印度旅游业的增长，以及外汇收入对印度旅游业的影响。他们也研究了印度旅游业在印度、世界和亚洲的西太平洋地区的角色。

Akhilesh Sharma et.al (2012)2，研究了外资直接投资在印度旅游业的流动，以及它对印度经济的贡献。FDI在印度旅游业中发挥了显著的作用，扩大了旅游市场。酒店和旅游业提供了印度贡献其GDP和就业创业的巨大的机会。

Rupal Patel (2012)3，研究了印度旅游业在规划期的进度。

VI. ANALYSIS AND DISCUSSION

外资直接投资（FDI）流入的数据被分析是酒店和旅游业服务的。外资直接投资（FDI）流入和外资直接投资（FDI）流入对酒店和旅游业服务的分析。

i. Number of Foreign Tourist Arrivals (FTA)

ii. Foreign Exchange Earnings (FEE)

Foreign Tourist Arrivals (FTA)指的是来访的外国游客。一个单独的外来旅游者在印度的护照上，至少停留二十四个小时。其目的是：

(i) Leisure (recreation, holiday, health, study, religion and sport);
(ii) Business, family, mission, meeting.

Foreign Exchange Earnings (FEE)：外资直接投资（FDI）流入，游客以及外国直接投资（FDI）流入的酒店和旅游业服务的年份。
TABLE 1: FDI INFLOWS, FOREIGN TOURIST ARRIVALS (FTA), FOREIGN EXCHANGE EARNINGS (FEE) OF THE HOTEL & TOURISM SERVICES

<table>
<thead>
<tr>
<th>Years</th>
<th>FDI Inflows (₹ In Crores)</th>
<th>AGR (In %)</th>
<th>Foreign Tourist Arrivals (In Number)</th>
<th>AGR (In %)</th>
<th>Foreign Exchange Earnings (₹ In Crores)</th>
<th>AGR (In %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>3,542.43</td>
<td>-</td>
<td>53,19,697</td>
<td>-</td>
<td>56,497</td>
<td>-</td>
</tr>
<tr>
<td>2010-11</td>
<td>1,462.18</td>
<td>-58.72</td>
<td>59,09,075</td>
<td>11.08</td>
<td>68,065</td>
<td>20.48</td>
</tr>
<tr>
<td>2011-12</td>
<td>4,753.89</td>
<td>225.12</td>
<td>63,76,353</td>
<td>7.91</td>
<td>81,815</td>
<td>20.20</td>
</tr>
<tr>
<td>2012-13</td>
<td>17,776.84</td>
<td>273.94</td>
<td>66,75,209</td>
<td>4.69</td>
<td>97,783</td>
<td>19.52</td>
</tr>
<tr>
<td>2013-14</td>
<td>2,948.73</td>
<td>-83.41</td>
<td>71,45,476</td>
<td>7.04</td>
<td>1,11,583</td>
<td>14.11</td>
</tr>
<tr>
<td>2014-15</td>
<td>4,875.12</td>
<td>65.33</td>
<td>77,66,108</td>
<td>8.69</td>
<td>1,26,288</td>
<td>13.18</td>
</tr>
<tr>
<td>2015-16</td>
<td>8,761.18</td>
<td>79.71</td>
<td>82,48,540</td>
<td>6.21</td>
<td>1,40,635</td>
<td>11.36</td>
</tr>
<tr>
<td>2016-17</td>
<td>6,139.82</td>
<td>-29.92</td>
<td>90,83,059</td>
<td>10.12</td>
<td>1,59,648</td>
<td>13.52</td>
</tr>
<tr>
<td>2017-18</td>
<td>7,278.75</td>
<td>18.55</td>
<td>1,03,81,277</td>
<td>14.29</td>
<td>1,84,971</td>
<td>15.86</td>
</tr>
<tr>
<td>2018-19</td>
<td>7,589.76</td>
<td>4.27</td>
<td>1,05,96,292</td>
<td>2.07</td>
<td>1,95,266</td>
<td>5.57</td>
</tr>
</tbody>
</table>

CAGR (In %) 7.92 | 7.13 | 13.2 |

Source: Department of Industrial Policy and Promotion (DIPP), Ministry of Tourism.

Table 1 shows the growth rate of Foreign Direct Investment (FDI) inflows during the period from 2009-10 to 2018-19. The amount of FDI inflows in the Hotel and tourism services has decreased from ₹ 3,542.43 crores in 2009-10 to ₹ 1,462.18 crores in 2010-11. Even though the amount of FDI inflows declined to ₹ 1,462.18 crores in 2010-11, it has picked up in the subsequent years. The increase over the period was 2.14 times.

During the study period, the percentage of growth over the previous year lies between -83.41 percent and 273.94 percent. The highest growth rate of 273.94 percent has been observed in the year 2012-13. The negative growth rate of -83.41 percent has been observed in the year 2013-14.

The Compound Annual Growth Rate (CAGR) of amount of FDI inflows was 7.92 percent which is a good sign of growth. During the study period of ten years, it has been observed that for five years the growth rate was above the CAGR and for four years the growth rate was below the compound annual growth rate.

Further the table shows the growth rate of foreign tourist arrivals in India during the period from 2009-10 to 2018-19. The number of foreign tourist arrivals has increased from 53,19,697 in 2009-10 to 1,05,96,292 in 2018-19. The increase over the period was 2 times.

During the study period, the percentage of growth over the previous year lies between 2.07 percent and 14.29 percent. The highest growth rate of 14.29 percent has been observed in the year 2017-18. The lowest growth rate of 2.07 percent has been observed in the year 2018-19.

The Compound Annual Growth Rate (CAGR) of number of foreign tourist arrivals was 7.13 percent which is a welcome trend. During the study period of ten years, it has been observed that for five years the growth rate was above the CAGR and for four years the growth rate was below the compound annual growth rate.

Further the table exhibits the growth rate of Foreign Exchange Earnings (FEE) from Hotel and tourism services in India. The amount of foreign exchange earnings in the Hotel and tourism services has increased from ₹ 56,497 crores in 2009-10 to ₹ 1,95,266 crores in 2018-19. The increase over the period was 3.45 times.

During the study period, the percentage of growth over the previous year lies between 5.57 percent and 20.48 percent. The highest growth rate of 20.48 percent has been observed in the year 2010-11. The lowest growth rate of 5.57 percent has been observed in the year 2018-19.

The Compound Annual Growth Rate (CAGR) of amount of foreign exchange earnings in Hotel and tourism services was 13.2 percent which is a welcome trend. During the study period of ten years,
it has been observed that for six years the growth rate was above the CAGR and for three years the growth rate was below the compound annual growth rate.

**Testing of Hypotheses**

In order to substantiate the objectives, the following hypotheses have been formulated:

1. **Null Hypothesis (H₀):** There is no significant relationship between FDI inflows and Foreign Tourist Arrivals.

2. **Alternate Hypothesis (H₁):** There is significant relationship between FDI inflows and Foreign Tourist Arrivals.

To test the above framed null hypothesis, a correlation co-efficient (Bivariate) has been undertaken. The results are furnished in the following Table 2.

**CORRELATION ANALYSIS**

Correlation is a measure of the linear relationship between two or more variables and its value always lies between the ranges -1 to +1.

<table>
<thead>
<tr>
<th></th>
<th>FDI INFLOWS</th>
<th>FOREIGN TOURIST ARRIVALS</th>
<th>FOREIGN EXCHANGE EARNINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDIIF</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.197</td>
</tr>
<tr>
<td></td>
<td>Sig.(2 - tailed)</td>
<td>.586</td>
<td>.524</td>
</tr>
<tr>
<td>FTA</td>
<td>Pearson Correlation</td>
<td>.197</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig.(2 - tailed)</td>
<td>.586</td>
<td>.000</td>
</tr>
<tr>
<td>FEE</td>
<td>Pearson Correlation</td>
<td>.229</td>
<td>.995**</td>
</tr>
<tr>
<td></td>
<td>Sig.(2 - tailed)</td>
<td>.524</td>
<td>.000</td>
</tr>
</tbody>
</table>

**.** Correlation is significant at the 0.01 level (2-tailed).

**Interpretation and Conclusion**

i. The correlation between FDI inflows and foreign tourist arrivals of hotel & tourism service is .197 which reveals that there is a low correlation among the two variables and is statistically not significant as the p-value is greater than 0.05.

ii. The correlation between FDI inflows and foreign exchange earnings of hotel & tourism service is .229 which also reveals that there is a low correlation among the two variables and is statistically not significant as the p-value is greater than 0.05.

The correlation between the foreign tourist arrivals and foreign exchange earnings is .995 which emphasizes the strong correlation. It also confirms that the p-value between foreign tourist arrivals and foreign exchange earnings is .000 (p<0.05).

**VII. FINDINGS OF THE STUDY**

- During the period under study, it is observed that FDI inflows received by the Hotel & Tourism services in India shows an increasing and decreasing trend during the study period. However, it is an encouraging sign that the increase over the period was 2.14 times with the compound annual growth rate of 7.92 percent.
- It is an encouraging sign that the number of foreign tourist arrivals has constantly increased throughout the study period. It has risen from 53,19,697 in 2009-10 to 1,05,96,292 in 2018-19 registering the CAGR of 7.13 percent.
- There has been continuous increase observed in foreign exchange earnings of the Hotel & Tourism services during the study period.
- It is apparent from the statistical analysis that correlation between foreign tourist arrivals and FDI inflows reveals that a low correlation of 0.197; the correlation between FDI inflows and foreign exchange earnings also signifies the low degree of correlation of 0.229; and the correlation between foreign tourist arrivals and foreign exchange earnings of the Hotel & Tourism service sector shows a strong correlation of 0.995 at 5% significance level.

**VIII. SUGGESTIONS**

- Better infrastructure facilities, like, road
lines, airports, accommodation facilities, drainage and sanitation facilities etc. need to be created immediately for faster tourism development.

✔ Tax holiday would encourage FDI in this sector and more players to set up hotels, to bridge the shortage of rooms which according to Government estimates stood at one lakh rooms.

✔ Better services need to be provided to the international tourists and quality standards for providing services should be upgraded, which include readily accessible information guides / bulletins, stress-free arrivals, improved hygienic conditions in tourism sites and surroundings, clean railway stations and so on.

✔ Tour operators, guides must develop a good relationship with tourists.

IX. EPILOGUE

Tourism is the largest service industry globally in terms of gross revenue as well as foreign exchange earnings. It can play an important and effective role in achieving the growth with equity objectives which India has set. Tourism is one economic sector in India that has the potential to grow at a high rate and can ensure consequential development of the infrastructure of the destinations. The expansion of the tourism sector can lead to large scale employment generation and poverty alleviation. Tourism also encourages preservation of monuments and heritage properties and helps the survival of art forms, crafts and culture.

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