

FINANCIAL AND ECONOMICAL PERSPECTIVE OF HOSPITALITY INDUSTRY IN ECONOMIC DEVELOPMENT

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ABSTRACT

Indian economic system has witnessed tremendous changes in various sectors. Few became more successful where as few became rare developed. Various sectors have played a significant role in the development of economic development of India and so in the recent years, hotel and tourism industries are also giving valuable contribution in the development of economy and bringing financial changes in terms of huge revenue in the same.

Tourism is one of the third largest revenue generators of foreign exchange for India and also employs one of the highest numbers of manpower. Tourism as a sector also provide FOREX for India and so it is the largest revenue generator for overseas exchange of money supply. Conde Nast Traveler, one of the most decorated travel magazines, rated India as one of the hottest destination in the world. An outcome of World Tourism Organization concludes that by 2020, Indian will lead the tourism industry in South Asia with 8.9 million arrivals. India is gradually emerging as the second most rapidly increasing (8.8 percent) tourism economy in the world over 2005-14 according to the World Travel & Tourism.

Introduction

Hospitality, as an industry segment in itself, is a US\$ 3.5 trillion service sector within the global economy. In India, Tourism is an important and significant industry which creates no of jobs opportunity and employed a significant portion. In terms of generating economic stability, India is likely to generate US \$121.4 and hospitality sector keeps the prospective earning of foreign exchange of US \$24 bn by 2015 as per the World Travel & Tourism Council.

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Through various advertisement outlets, Government of India is also planning to spread the variety of tourism in India. Some examples of such campaigns are 'Incredible India' and 'Athithi Devo Bhava' etc.

Table 1: Economic facts

Third largest foreign exchange earner	6.23% of India's GDP and 8.78% of India's total employment	Report by the Planning Commission
Approx 49 million people are employed	Currently 1 in every 10 jobs and likely to be 1 in 9.6 jobs by 2020	
Travel and tourism is a USD 32.7 billion business in India	The hospitality sector is sized at USD 23 billion and is expected to grow to US\$ 36 billion by 2018	

According to the Planning Commission, the hospitality sector creates more jobs per million rupees of investment than any other sector of the economy. The World Travel & Tourism Council (WTTC), which says India's travel and tourism sector is expected to be the second-largest employer in the world, employing 40,37,000 people, directly or indirectly, by 2019

Economical Applications: Demand and Supply Side

In India, the GDP is expected to grow at 7.8 per cent per annum during the period 2013-2023.

Revenues gained from domestic tourism rose by 5.1 per cent in 2013 and is expected to increase by 8.2 per cent this year as per a report from World Travel and Tourism Council (WTTC).

The demand for hotel products and services in India is dependent on socio-cultural and political factors that have a direct impact on the consumption of these products and services. Most of the revenues generated by the hotel industry are dependent upon the international tourist inflow to the country. The hotel industry has been on the receiving end as far as profitability and cash flows are concerned. This has been the main reason for the weak performance. It has been notified that government has taken the route of providing 100% FDI in tourism sector but still there is a breach between demand and supply forces in various tourism amenities. The channelization of FDI is also done approximately 2% of the total which is a sign for alarming progressive growth.

Conventions for Investment Statistics

After LPG came in to India, Hospitality sector has been allowed to receive 100% foreign direct investment and so various multinational chains are opening their outlets in India by which the economy is getting overall development. Up to 3 % of the capital cost of the project is proposed to be paid for technical consultancy services. Up to 3 % of the net turnover is payable for franchising and marketing/publicity fees. Up to 10 % of gross operating profit is payable for management fees, including incentives fees.

Table 2: *Tourism, Hospitality and GDP*

Year	GDP Contribution CAGR 12.6% ('06 – '13)
2007	\$25.2 Bn
2008	\$23.6 Bn
2009	\$26.3 Bn
2010	\$30.9.2 Bn
2011	\$30.8 Bn
2012	\$35.9 Bn
2013	\$ 40.8 Bn

Tourism and hospitality sector's direct contribution to GDP totaled US\$ 34.7 billion in 2012 and is expected to rise to US\$ 40.8 billion in 2013.

Indian Hospitality Potentiality in Global Hub

India has prominent reasons for becoming a global player in tourism sector because it has a great market for it and so they are open for 100% FDI in this sector as well. It is not only to promote this sector but also to increase the investment avenue for this sector which could be more than \$10 billion in coming few years.

Foreign tourist arrivals are expected to grow to 10 million by 2010-12 and the domestic tourism is expected to increase by 15% to 20% over the next five years as per the Ministry of Tourism expectations basing on the growth in the last one decade. GDP of Indian might receive approximately Rs. 900000 crores from tourism sector in coming 7-8 years as well.

It is estimated there is a need of around 10 Billion US \$ required for development of tourism as per the different state tourism estimates for the next five years.

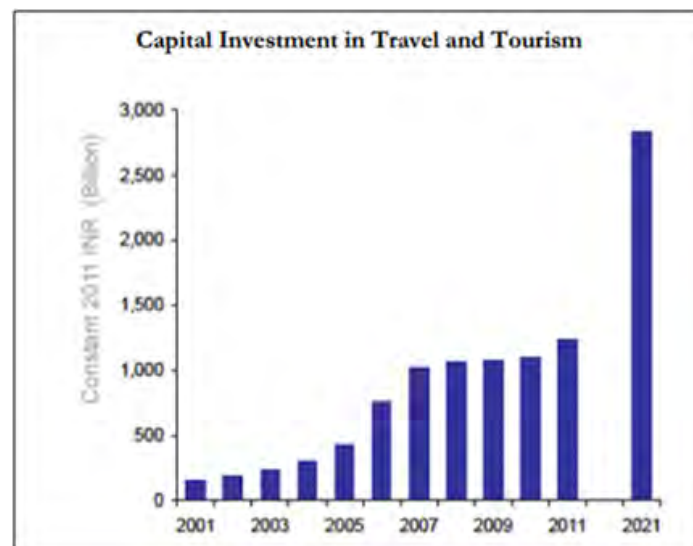
Investment in Hotels: A Route for Development

Hospitality sector has become one of the most popular investment areas for foreign investors.

The past fifty years have witnessed a “revolution” in global economic growth. Yet not everyone has participated in this revolution. More than 65% of the world’s population, over four billion people, still lives on the equivalent of less than \$4 per person per day.

The business community has both the capabilities and the strategic, business reasons to play a major role in creating these opportunities. The CSR Initiative’s Economic Opportunity Series, a product of our Economic Opportunity Program, explores this role across a range of industries.

Contribution of Tourism as Sustainable Enlargement



A truly sustainable tourism development strategy must therefore create accountability of the tourism industry to the locally defined development visions and objectives. Such development should be such that it benefits the local communities that serve as tourist destinations through increased positive contribution of tourism business and consumption activity, where reduced tourism’s negative impacts that accompany such development.

The hotel and tourism industry’s contribution to the Indian economy by way of Foreign Direct

Investments (FDI) inflows were pegged at US\$ 2.1 billion from April 2000 to March 2010, according to the Department of Industrial Policy and Promotion (DIPP).

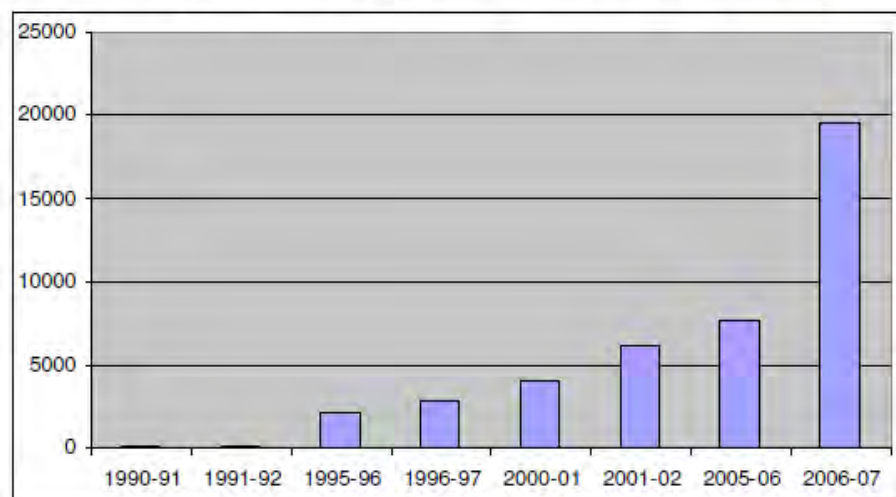
According to the Travel & Tourism Competitiveness Report 2009 brought out by the World Economic Forum, the contribution of travel and tourism to Gross Domestic Product (GDP) is expected to be at US\$ 187.3 billion by 2019.

Quality of jobs and their contribution to economic development is often disputed because of their seasonality, and their servile and low-skilled nature. Also the wages that are paid to especially the lower-ranked employees are sometimes questioned. For example, the ILO established that wages at hotel chains are on average 20 percent below those in other economic sectors (ILO, 2001, p. 121).

Cross Border Investment Opportunity

FDI in the hotel sector towards developing countries has increased substantially in the past decades, reflecting the rising importance of services in total international investments (see e.g. Dunning and Kundu, 1995; UNCTAD, 2007).

Figure 1: FDI Inflows into India, 1990-2007 (US\$ millions)



Source: Reserve Bank of India (RBI)

But despite its substantial international growth, the major hotel chains remain relatively modest in size and their degree of internationalization is also low compared to other industry sectors (Endo, 2006). For example, none of the major hotel multinationals is included in the top 100 of non-financial MNEs, and most employment in the hotel sector is still created at domestically-owned accommodations: foreign-owned firms account for only 10 per cent of worldwide employment in the hotel and restaurants sector in the 1990s – a low proportion compared to most other industry sectors (UNCTAD, 2007). However, the limited proportion of hotel FDI is slightly misleading since hotels primarily internationalize through non-equity modes, particularly in developing countries (Endo, 2006).

Economic Opportunity

In India, tourism is perhaps one of the most interconnected services sectors in the economy. It is one of the largest sectors in terms of demand for goods and services from other sectors (“backward linkages”), surpassed only by manufacturing, the electricity sector, health and social work, and non-tourism-related air transport, hotel and restaurant activity. Indian tourism is also above average in generating supply of goods and services to other sectors (“forward linkages”).

Growth in Tourism Arrivals

Tourism has been a major source for managing various unforeseen contingencies which might occur from various communities. During 1990-2005, the annual average growth rate of international tourism was approximately 7% as a comparison to approx 4% growth overall, whereas the generation of receipts was approx 10% as a comparison to 6.3% overall.

In 2005, developing countries recorded \$205 billion in international tourism receipts. Contribution to gross domestic product (GDP): The UNWTO does not have data on the global contribution of tourism to Even UNWTO estimates that GDP at the country level broadly-defined tourism accounts for between two and 12% of GDP in advanced, diversified economies, and up to 40% of GDP in developing economies, and up to 70% of GDP in small economies.

Promotional Routing Impact through Tourism in Economic Development

Sustainable tourism development is envisaged as leading to management of all resources in such a way that we can fulfill economic, social and aesthetic needs while maintaining cultural integrity, essential ecological processes, biological diversity and life support systems”.

International tourism arrivals worldwide by 2020 will be 1.6 billion, with spending in excess of 2 trillion U.S. dollars; The percentage of the traveling population involved in International travel will increase from 3.5% in 1998 to 7% by 2020; Europe will continue to be the largest international tourism region, although by 2020 its market share will have been eroded significantly; By 2020 China will become the largest receiver of international tourists; Tourism as a sector will grow at a faster rate than all other sectors in the global economy. For example, in Tanzania and Uganda, earnings from tourism accounted for 7.5% and 4.5% of GDP, respectively, while its contribution stood at 11% of GNP in Kenya, in the second half of the 1990s. Foreign exchange earnings have been increasing steadily over the past ten years representing an appreciable growth rate. While tourism is sensitive to the level of economic activity in the tourist generating countries, it provides higher and stable earnings than those from primary products.

Glimpse on the Financial and Economic Offers

Socio-economic processes totally independent of tourism, like rapid population growth, urbanization and industrialization, which may also degrade tourism resources. Tourism has shown great change in economic perspective because nations are liberalized now and they are opening trade barriers. Another important economic perspective relates to GDP contribution of this sector which somewhere touches the figure of 6%. The generation of financial income is deriving more from tourism sector of India. Among other effects, tourism development may cause interruption of local customs and lifestyles, lead to spread of infectious diseases, cause changes in local demographics, and tilt the local housing and labour markets. Tourism as a sector create and offer more opportunity for wealth maximization which ultimately increases the wealth of the economy.

Conclusion

It has been viewed that tourism sector is becoming a prominent sector in Indian economy and so it is an upcoming significant industry in India. As a result, this industry is contributing approximately 6% of GDP and creating various opportunities for being employed through this route. The total approx figure in terms of MCR comes to US\$3.5 trillion from this industry with context to global map. In India, tourism industry is catering tremendous opportunity for economic growth, financial growth and growth as overall economic development. No doubt that by 2020, tourism sector of India might become the fastest growing sector of Indian economy.

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