

## **Indian Tourism its potential avenues and challenges for growth: Riding on the service sector**

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### **ABSTRACT**

*Given the countless activities and avenues for growth under the umbrella of services and the resilience that the service sector has acquired post 1991 reform period in India, it is not difficult to acknowledge that India's service sector has finally arrived! The post recession survival of the Indian economy has largely been possible due to the contribution of the services sector to India's GDP. This sector has been recognized as one posing innumerable opportunities, attracting FDI boosting employment and propelling exports. So much so for the opportunities; the challenges are also many.*

*The real challenge lies not only in maintaining standards in areas where India has established universal benchmarks such as IT and ITEs but a larger challenge lies in probing and developing traditional areas such as tourism and shipping where other countries of the world have far surpassed Indian standards, nevertheless, they present manifold opportunities for India. The number of Foreign Tourist Arrivals (FTAs) in India*

during 2010 increased to 5.78 million as compared to 5.17 million in 2009. Registering a growth rate of 11.8% during 2010 over 2009. This growth rate of 11.8% in 2010 for India was better than UNWTO's projected growth rate of 5% to 6% for the world in 2010. Tourism continues to play an important role as a foreign exchange earner for the country. In 2010, foreign exchange earnings (FEE) from tourism were US\$ 14.19 billion as compared to US\$ 11.39 billion in 2009, registering a growth of 24.6%. Through this paper we attempt to understand and probe a traditional service area ; tourism as a service industry, its contribution to India's economy, recent developments, opportunities and challenges.

**Keywords:** *Gross Domestic Product, Foreign Tourist Arrivals, United Nations world Trade Organizations, Foreign Exchange Earnings.*

## **Introduction**

The Indian economy has been able to resurface after the recession because of the immense contribution of the service sector to different aspects of the economy, such as the country's GDP, employment, attracting FDI and providing the much needed force to exports. India's service sector largely comprises domestic trade; tourism including hotels and restaurants; shipping and port services; storage; telecommunications related services; real estate; information technology (IT) and IT enabled services (ITeS); accounting and auditing services; research and development (R&D) services; legal services and consultancy; construction; and some specialized social services such as sports. (india budget, 2012) The two broad services categories, namely trade, hotels, transport and communication; and financing, insurance, real estate and business services, comprising many dynamic services have performed well with growth of 11 per cent and 10.6 per cent, respectively in 2010-11 (AE). (<http://indiabudget.nic.in>, 2012) Tourism particularly registered a growth of 11.8% in 2009-10 over 2008-09

## Objectives

The objectives of the study are:

- To review and highlight the importance of service industry in the Indian economy.
- To discuss the significance of the contribution of tourism to the Indian economy
- To identifying potential growth areas in Indian tourism.
- To identifying the challenges faced by the tourism industry in India.

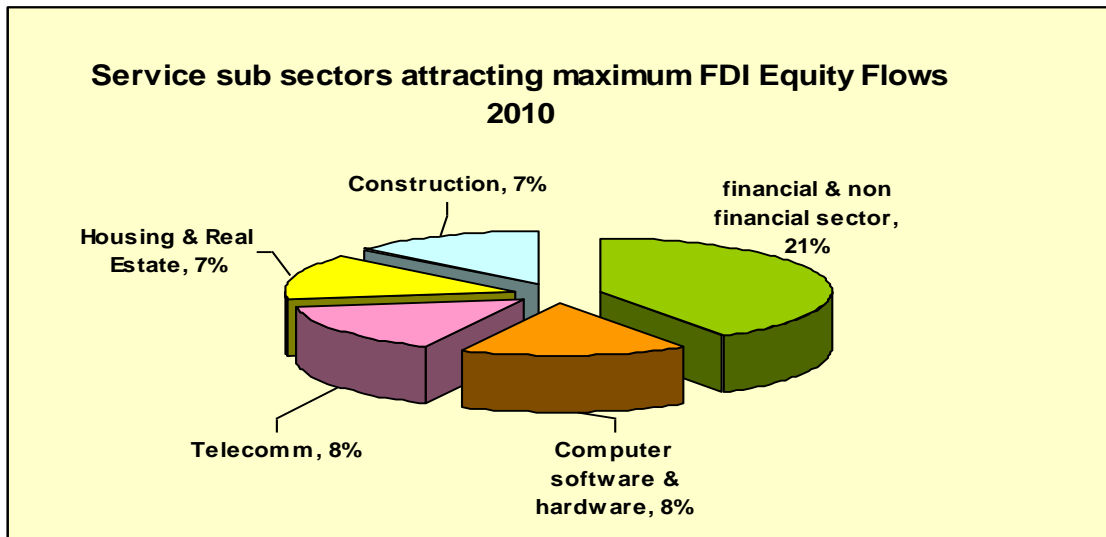
## Performance of the service sector: An overview

The share of services in India's GDP at factor cost (at current prices) increased rapidly from 30.5 per cent in 1950-51 to 55.2 per cent in 2009-10. If the construction sub-sector is also included, the share increases to 63.4 per cent in 2009-10. This substantial increase in the overall growth rate [compound annual growth rate (CAGR)] of the Indian economy from 5.7 per cent in the 1990s to 8.6 per cent during the period 2004-05 to 2009-10 was largely due to the acceleration of the growth rate (CAGR) in the services sector from 7.5 per cent in the 1990s to 10.3 per cent in 2004-05 to 2009-10.

Important Services for India are: Software a sector in which India has achieved a remarkable global brand presence and recognition. Tourism- and travel-related services and transport services have also been major performers in India's services sector. Besides these, the potential and growing services include many professional services, infrastructure-related services, and financial services.

In terms of employment generation, though, the primary sector (agriculture mainly) is the dominant employer followed by the services sector, the share of services has been increasing over the years while that of primary sector has been decreasing. In between, 1993-94 to 2004-05, there was a sharp fall in the share of the primary sector in employment.

The highest FDI equity inflows were also attracted by services sector(financial and non financial), Computer software & hardware, Telecommunications Housing and real estate and construction 21%, 8%,8%,7% and 7% in that order respectively.



(Mukherjee, 2010-11)

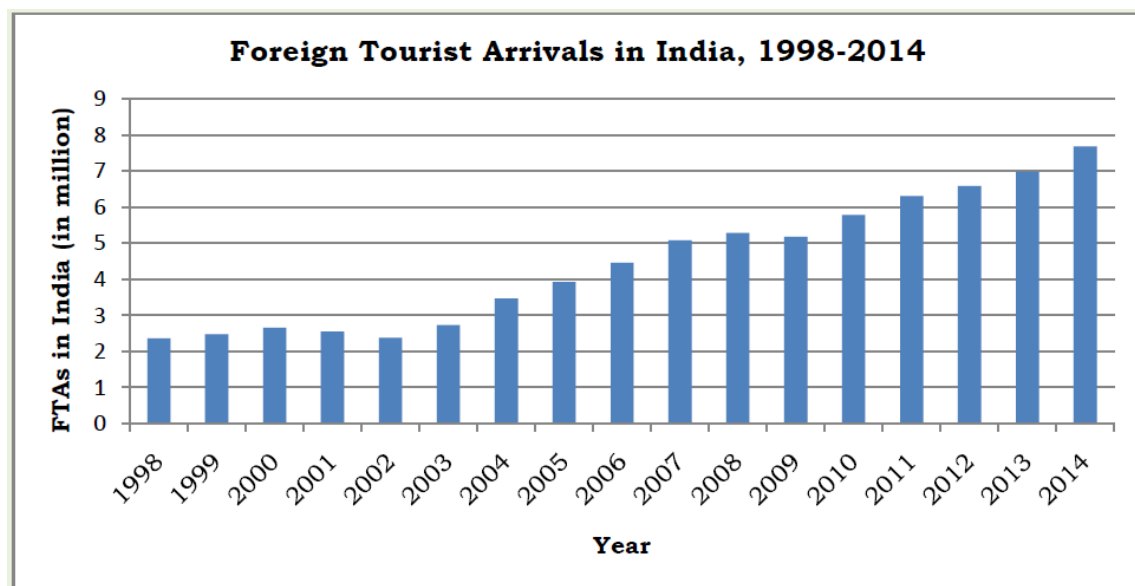
The Balance of Payments data shows that India is also moving towards **a services-led export growth**. During 2004-05 to 2008-09, merchandise and services exports grew by 22.2 and 25.3 per cent respectively. Global recession resulted in the slowdown of the growth in Services in 2009-10. The overall the economy opened up with total trade including services as a percentage of GDP showing a remarkable increase from 29.2 per cent in 2000-01 to 53.9 per cent in 2008-09, though it dipped to 46.1 per cent in 2009-10 due to the global economic crisis. (R.H.Khwaja, 16th November,2011)

### **Tourism performance: Contribution to the economy**

The economic benefits that stream into the economy as a result of the growth of tourism are: increased national and state revenues, foreign exchange earnings/ tourism receipts, employment generation and creation of tourist infrastructure, which, also contribute immensely towards the overall socio- economic development as well as cultural preservation and environmental protection.

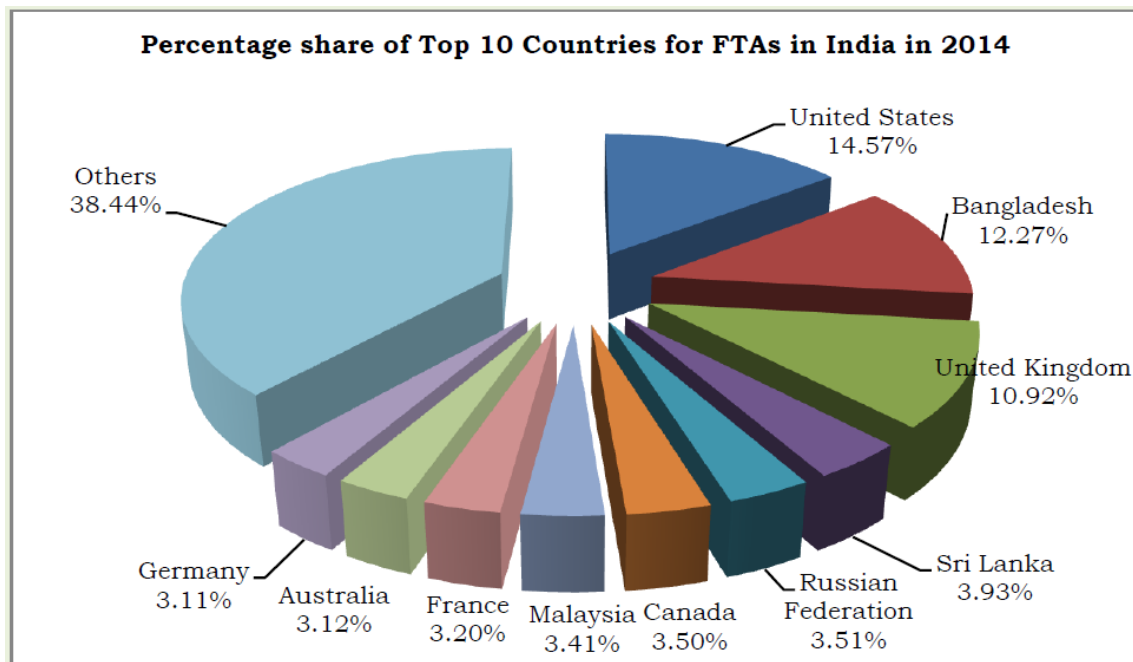
Tourism essentially is a multi sectoral industry that benefits an economy from its forward and backward linkages both, and synergizes related sectors such as agriculture, horticulture, poultry, handicrafts, transport, construction etc. Investment in creation of tourism products initiates catalytic transactions, that would require goods and services to be supplied from the aforementioned related areas. The consumption demand resulting from tourist expenditure generates more employment and triggers a multiplier effect on the economy. (India, 2007)

#### Foreign Tourist Arrivals (FTAs)



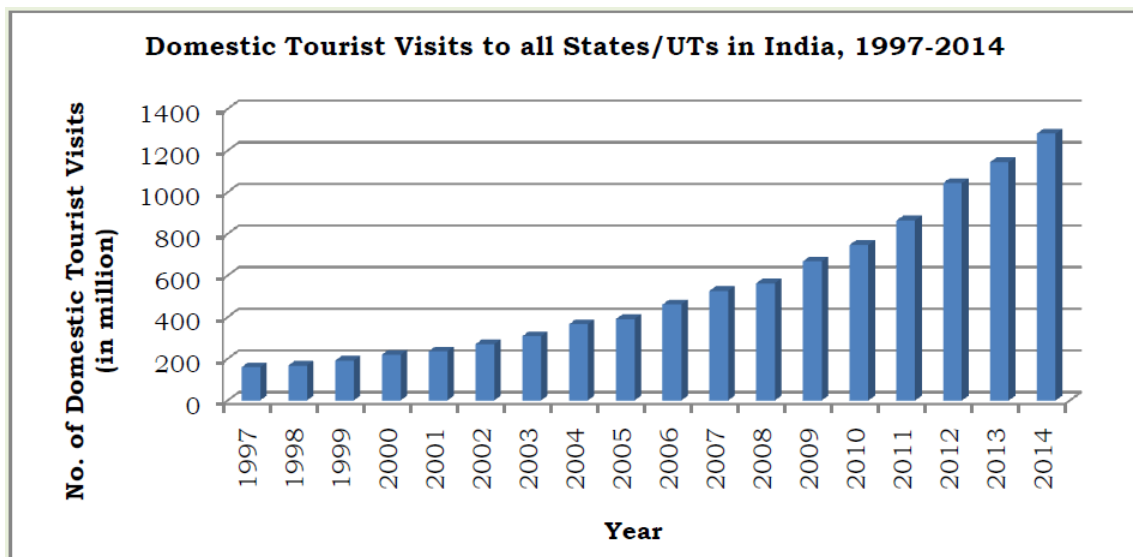
India Tourism Statistics 2014 at a glance (Division, 2015)

Most promising sign of growing contribution of tourism has been the much awaited increase in the number of **foreign tourist arrivals** (FTAs) in India. The Commonwealth Games 2010 resulted in the increase in the FTA footfall to 5.78million as compared to 5.17 million 2009. This was an encouraging high of 11.8%. This 2010 growth for India has been far better than UNWTO's projected growth rate of 5% to 6% for the world in 2010. (R.H.Khwaja).As compare to the pull created by the Common Wealth Games in India,in the year 2012 witnessed The Holy Fest of Maha Kumbh in Allahabad in 2012,which is also supported by the growing Medical Tourism in our country.



**India Tourism Statistics 2014 at a glance**(Division, 2015)

Chief Source markets; USA, UK, Bangladesh, Sri Lanka, Canada, Germany, France, Malaysia, Australia, Japan, Russian Fed., China(Main), Singapore, Nepal and Republic of Korea. Accounted for about 61.6% of total FTAs in India in 2014



Source: India Tourism Statistics 2014 at a glance

The second component of tourist arrivals is the number of domestic tourist visits. 1281.95 million Domestic tourist visits were recorded in India during 2014 as

compared to 1145.05 million in 2013, with a promising growth rate of 11.9 %. The graph shows a continuously increasing trend every year. The rise in domestic tourist visits is a symbol of increasing mobility of Indian travelers, enhanced spending power, better connectivity, affordability and a gradually evolving mindset of Indian consumers which motivates them to venture beyond their home towns.



Source: India Tourism Statistics 2014 at a glance

Foreign exchange earnings (FEE) from tourism in India 2014 registered an increase of 9.7% over the tourism FEE in 2013. FEE from tourism felt the repercussions of the economic recession in 2009 however a sudden increase of 18.1% in 2010 evidences the resilience that tourism has and the revival that it has brought in the economy.

### Potential Avenues:

About 27.5% FTAs in 2010 came to India for the purpose of 'visiting relatives and friends' 24% were leisure tourists and 18.6% were business tourists. The highest number of tourists visiting India for business were from China (60%) followed by Japan (56.9%) , Egypt (47.9%) and 43% from Republic of Korea. The largest number of FTAs visiting friends and relatives are from North America 47.5% closely followed by 40.1% from Australasia. South Asia contributed 8.9% medical tourists followed by West Asia and 5.45 from Africa.

## **Development of tourism infrastructure in the country including niche products**

Tourism niche products comprise MICE tourism, cruise, rural tourism and many more. The above mentioned figures indicate a rigid classification of tourists by purpose of visit; however, these visits may be made multi purpose i.e. by combining more than one type of tourism product together. This demands the creation and promotion of niche tourism products.

*Rural Tourism* According to the Annual Report on Tourism 2010-2011 by the Ministry of Tourism, new tourism products have been identified and sanctioned for further development. On priority among these is Rural Tourism, where, presently the ministry has sanctioned 160 rural tourism spots. The success of this initiative is the Pacific Asia Travel Association award to Hodka village in Gujarat.

Golf tourism has also been identified as a potential area for growth in a conference held in January 2011 for the "*Promotion of Golf Tourism*". This conference saw participation from golfers, golf clubs, corporate travel trade representatives and golf event managers. Golf Tourism could be projected as a major attraction for business tourists.

The development of *Ocean and River Cruise tourism* should also be persuaded. The challenge here lies in identifying inland and ocean cruise circuits, creating adequate birthing and docking facilities, and other state of the art cruising infrastructure and most importantly coping with international safety standards. The development of cruise tourism, could also utilize the potential of rivers in the northern plains as they follow a gradual slope and are navigable all year round.

Single purpose visits may be enhanced by combining different kinds of tourism products, one such example may be combining a business or leisure visit with *adventure tourism*. It could be converted into a wholesome experience thus encouraging tourists to revisit us. Adventure tourism is being promoted in a large way by the tourism ministry, granting financial assistance, recognizing independent adventure tour operators, providing training and other skill development assistance



to *leaders* educating domestic adventure tour operators about world standards and essential safety measures becomes indispensable. (Tourism, 2011)

The development of *medical tourism* here needs special mention. Medical tourism generated \$333million in India, (Chandrika Sandeep) According CII and Mc Kinsey predictions, medical tourism is expected to generate \$ 2.2 Billion by the end of 2012.

Although there are several other destinations in South Asia offering medical tourism products, but, India stands out among them due to the fact that we provide ,state of the art medical facilities, reputed health care professionals, quality nursing care and no waiting time for availing medical care. Although the private sector is leading medical tourism activities but a lot may be achieved by public private cooperation, as creation of world class medical infrastructure would also cater to the local needs of the population. Acquiring JCI and NABH accreditation for all properties that are engaged in providing health care and wellness treatments will also help us position ourselves as a destination for medical tourism. It would also encourage the revival of traditional medicine such as Yunani and Ayurveda and forms of exercise and wellbeing such as Yoga unique only to India.

The new source markets may also be entered for the purpose of posting India as an education tourism destination. This would also push education infrastructure creation providing world class educational facilities to foreign as well as Indian students.

Given the vibrant socio- economic and cultural fabric of the country, there is no end to the possibilities of the types of tourism possible in the country. One such unique type is Rain tourism that capitalizes on the unique seasons that India has. Mawsynram a place near Cherapunji, Meghalaya's record 1400ml of rainfall annually, the bio- reserves and natural topography of the Western Ghats could be an enjoyable spectacle in the years to come.

**Increase the visibility of Indian Tourism ;** The *Atithee Devo Bhava* campaign 2011 was designed after the Incredible India campaign in 2010, this was one attempt to make Indian tourism more visible, other such attempts need to be made to position Indian tourism in the minds of the global consumers. The year 2011 saw some

initiatives being taken in this direction in the form of participation in global trade fairs. Five *India roads show* and *know your India* seminars were also conducted by regional. A more aggressive approach for the promotion of tourism needs to be adopted.

**Developing HRD in tourism in;** order to meet the growing demand for quality human resource. At present there are 51 affiliated IHM's and catering institutes, IITTM's and other universities more such institutions must be opened to expand the skilled labour base.

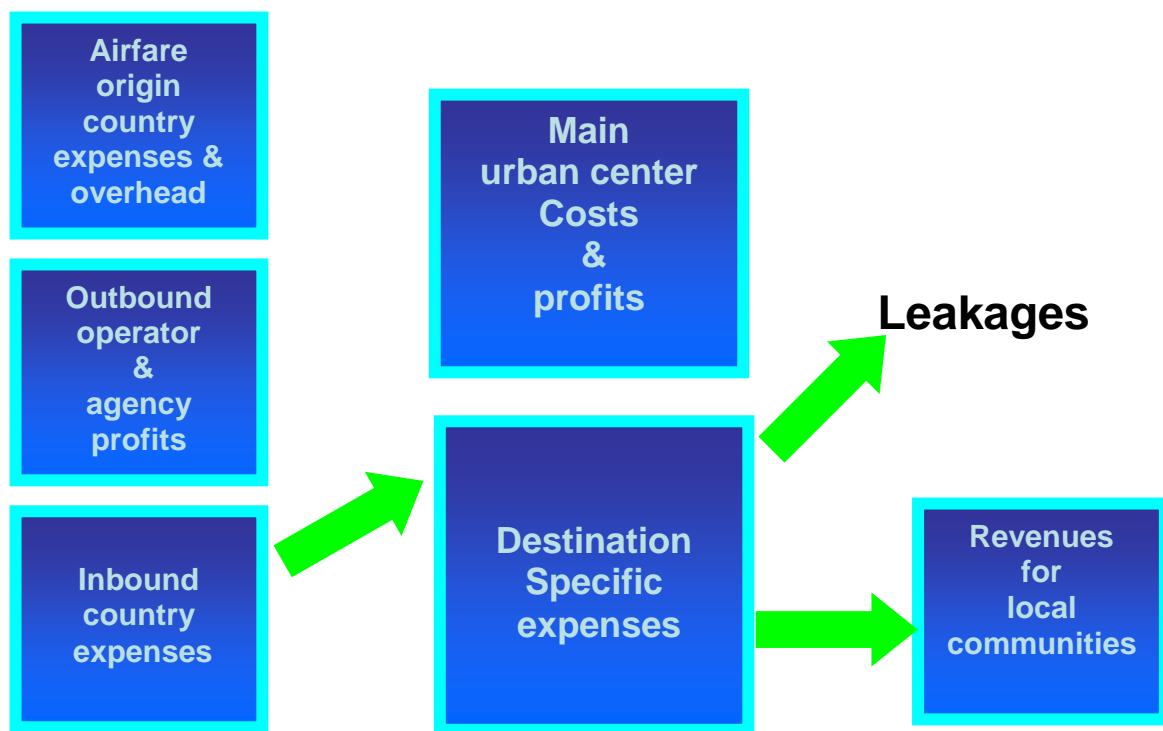
**Developing tourist accommodation (capacity and quality);** to requisite standards to meet the growing demand for tourism in the country: According to the Ministry of Tourism market research division there were 2483 hotels (classified and unclassified) in 2010, with a total room capacity of 1,17,815 rooms.

**Entering new source markets;** Apart from the top 15 FTA source countries there are 21 countries which recorded slightly more than 1% share each in FTAs during 2010. These countries are Afghanistan, Australia, Bangladesh, Canada, China (Main), France, Germany, Italy, Japan, Korea (South), Malaysia, Maldives, Nepal, Netherlands, Russia, Singapore, Spain, Sri Lanka, Thailand, U.K. and USA. As per the recommendations of the steering committee on tourism for the Eleventh Plan, it was proposed to achieve 10 million international tourist arrivals at the end of the eleventh plan chiefly by diversification of source markets. This may be achieved by focusing on countries with large Indian diasporas such as South Africa, Mauritius, Kenya, Malaysia and Fiji etc. The PIOs and NRIs may also be targeted pulling their emotional strings to visit the country of their origin and discover their roots.

**Increasing Receipts from Tourism:** In terms of share international tourism receipts; India's rank has increased from 34<sup>th</sup> in the year 1998 to 17<sup>th</sup> in 2010. We need to focus on encouraging higher per capita spending of international visitors, promote local handicrafts, textiles, jewellery etc. providing a fun filled shopping experience under one roof e.g. "Delhi Haat" "Shilpgram" etc. (India M. O., 2011-12)

## Challenges for Growth:

**Preventing leakages;** The tourism industry particularly in the developing countries such as India has been suffering due to export and import leakages in tourism earnings. The direct income of an area is the amount of tourist expenditure that remains locally after taxes profits and wages are paid outside the area and after imports are paid., these subtracted amounts are called leakages of each 100\$ spent on a vacation tour by a tourist from developed country only about 5\$ actually remain in a developing destination economy. The figure below shows how this leakage occurs.



(Negative Economic Impacts of Tourism)

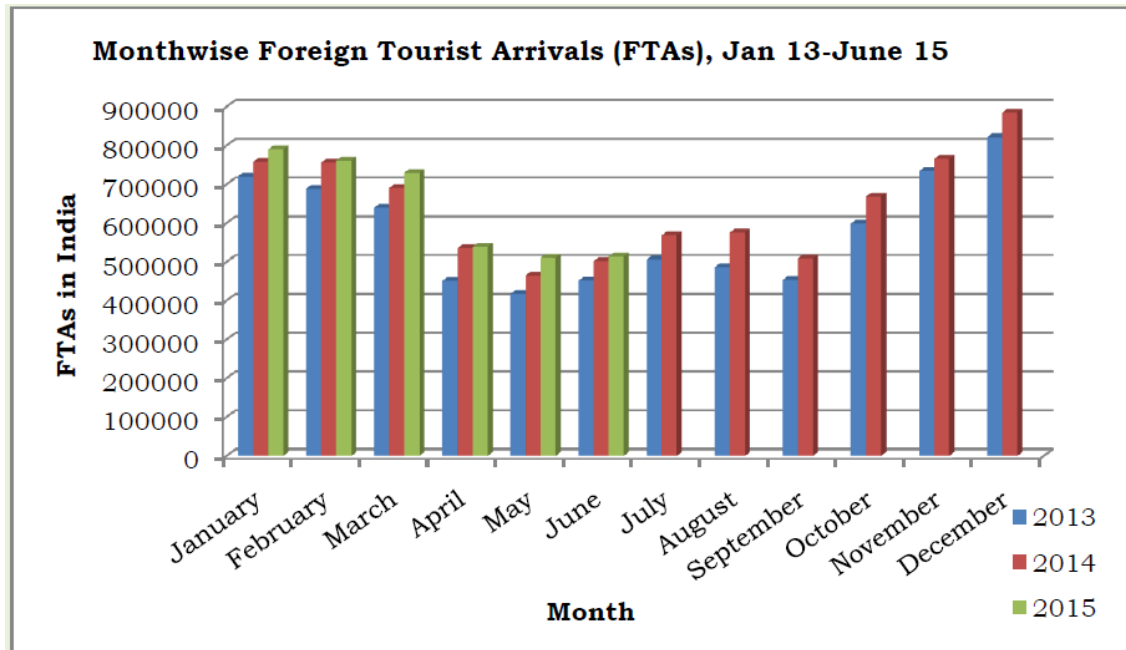
There are two types of leakages import and export, the former occurs when tourists demand food and equipment and facilities not available or not in local supply at a destination and must be imported, and hence most of the income from tourism leaves the country to pay for these imports. When foreign investors invest in construction and creation of tourist facilities they take back the revenues generated at the destination to their home country this is an export leakage

According to the UNCTAD the import leakage is about 40-50% of gross tourism earnings in a developing country. Prevention of leakage requires an urgent need for infrastructure creation and maintenance and capacity building. It requires long term public-private partnership; it also calls for achieving independence in providing facilities and equipment for tourists. This could be a major driver to growth as it would involve participation of tourism related areas not only making us self sufficient in providing these facilities to tourists but also retain direct income from tourism , create more jobs .

**Maintaining high service standards;** There are different categories of tourists depending upon the level of expectance that they have from a particular destination. One of the major lags in Indian tourism is the large unskilled labour that serves tourists. This contributes to bringing down the level of delivered service value and results in tourist dissatisfaction. The challenge is to gradually equip the entire unskilled labour force in tourism with a minimum level of skill e.g. course in basic etiquettes.

**Creation of more infrastructure;** The tenth plan document calls for the creation of highways state and national roads and the golden quadrilateral that will connect the four metros of the country. Infrastructure development is not short term investment for providing good facilities to the tourists it is in the larger good of the community which will be able to access and utilize these facilities. Infrastructure creation particularly needs the construction of roads and highways, construction of more ports and airports, accommodation of different categories construction of seminar and conference halls for the purpose of MICE tourism.

## Seasonality in tourism



Source: India Tourism Statistics 2014 at a glance

The graph displays that the peak months of tourist inflow are from October to March every year though the number of FTAs have increased but the seasonality remains. Complementing one form of tourism with the other would help in lengthening the stay, provide a wholesome experience and also help in reversing the seasonality and even attract tourists during the lean season.

The July monsoon draws tourists to destinations such as Goa and Mahabaleshwar. The entire Western Ghats have enjoyable weather during the monsoon as well certain areas of the North Eastern states have equally wonderful weather. These destinations must be aggressively promoted.

### **Revival of tourism in areas with exhausted potential**

One of the most frequently visited tourist circuits is Delhi- Agra – Jaipur, however given the amount of tourist inflow these may soon exhaust in terms of tourist carrying capacity, hence, there is an urgent need to devise measures to rejuvenate these destinations and continue to attract more tourists.

## Conclusion

This is an attempt to present the contributions of the services sector to the Indian economy with particular reference to the post recession years. The services sector's role in the economy has grown manifold, from contribution to the GDP, generating employment, attracting FDI flows and also creating a services lead export growth. Through this study tourism emerges as a prime driver for growth for the economy. The potential growth areas include pursuing the versatility of Indian tourism, creation of niche tourism products, enhancing capacity building in terms of infrastructure creation, entering new source markets and human resource development. The key challenges identified are increasing the visibility of Indian tourism globally, most importantly preventing import and export leakages, the revival of those destinations that may exhaust in carrying capacity and checking the seasonality that greatly affects tourist inflow and tourism earnings in India.

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