

Sector Profile

Tourism in India: An Introduction.

India's bounteous heritage includes not just breathtakingly beautiful architecture, rich traditions and diverse cultures but also mesmerising and scenic landscapes. From the challenging snow-clad peaks of the Himalayas and the cool hill stations of the north, to the alluring beaches on the western and eastern coasts and the ornate temples of the south, India has the variety to satiate the interests of all those travelling through the country. In fact so popular is the country as a global tourist hot spot that the 'Conde Nast Traveler', one of the ace travel magazines, profiled India as the most preferred tourist destination in recent times.

It is true then, that tourism is an important and flourishing industry in the country. It accounts for one-third of the foreign exchange earnings of India and also gainfully employs the easily the highest number of people compared to other sectors. According to the World Tourism Organization, by the year 2020, it is expected that India will become the leader in the tourism industry in South Asia, with about 8.9 million arrivals.

Of late the Indian tourism economy has been deemed as the second-most rapidly increasing (8.8 %) tourism economy in the world, by World Travel and Tourism.

The RNCOS-formulated report titled "**Indian Tourism Industry Forecast (2007-2011)**" objectively analyzes the current scenario and future prospects of the Indian tourism industry, focusing on different parameters of the industry such as: inbound and outbound tourism, expenditure by inbound tourists, and medical tourism in India. It helps analyze the opportunities and factors, which are crucial to the success of the tourism industry in India. The key **findings** of the report are:

- Inbound tourist expenditure per head in India, is third highest in the world and even more than the global average tourist spending.
- Healthcare tourism is on the rise in India. Visitors can avail several private healthcare facilities. The number of tourists visiting India for medical treatment is expected to reach one million by 2012, representing a Compounded Annual Growth Rate (CAGR) of 28.09% since 2007.
- During 2001-2006, disposable income grew at a CAGR of 10.11%, which led to an increase in domestic as well as outbound tourism.
- More than 50% of the revenue earned by the Indian hotel industry comes from room rents. Over the five-year period spanning 2007-2011, Indian outbound tourist flow is expected to increase at a CAGR of 12.79%. It is expected that the tourist influx to India

will increase at a CAGR of 22.65% between 2007 and 2011.

The sector's performance over the past decade has been quite promising as is evident from the following figures.

Foreign Tourist Arrivals (FTAs) in India between January and June, 2000 –2011

Year	FTAs (in million)	% change over the previous year
2000	2.65	6.7
2001	2.54	-4.2
2002	2.38	-6.0
2003	2.73	14.3
2004	3.46	26.8
2005	3.92	13.3
2006	4.45	13.5
2007	5.08	14.3
2008	5.28	4.0
2009	5.17	-2.2
2010	5.58	8.1
2011	2.92	10.9

Foreign Exchange Earnings (FEE) (in Rs. crores) from Tourism in India between January and June, 2000 –2011

Year	FEE from Tourism in India (in INR Crores)	% change over the previous year
2000	15626	20.7
2001	15083	-3.5
2002	15064	-0.1
2003	20729	37.6
2004	27944	34.8
2005	33123	18.5
2006	39025	17.8
2007	44360	13.7
2008	51294	15.6
2009	54960	7.1
2010	64889	18.1
2011	35163	12.1

Number of domestic tourist visits, for all states / UTs in India, between January and June, 2000 –2010

Year	No. of Domestic Tourist Visits (in million) to States / UTs	% change over the previous year
2000	220.11	15.4
2001	236.47	7.4
2002	269.60	14.0
2003	309.04	14.6
2004	366.27	18.5
2005	391.95	7.0
2006	462.31	18.0
2007	526.43	13.9
2008	563.03	7.0
2009	668.80	18.8
2010(p)	740.21	10.7

About 5.92% of the country's GDP comes from tourism and it provides employment to over 9.24% of the country's workforce.

For every INR 1 million of investment, the number of jobs created is as follows:

- Industry – 18
- Agriculture – 45
- Travel & Tourism – 78

The Government of India has from time to time introduced tax deductions and incentives for investments in this sector. In its Union Budget 2010–11, it introduced an investment-linked deduction benefit, for new hotels, in the '2-star' category and above, anywhere in India, was introduced. It is to figure under Section 30/35 of the IT Act, 1961. Tax deductions would be on the 'Profits linked to investments'. This would induce investment in new projects in the hospitality segment, create more hotel rooms, and boost employment rates; a positive development indeed.

In the Union Budget 2011–12, Service tax on air travel was hiked - by INR 50 for domestic travel and INR 250 for international travel, in the economy class. For higher classes, it would be a flat 10%. The Service tax net was widened to include in its purview hotel accommodation above INR 1,000 per day; air-conditioned restaurants serving liquor and some categories of hospitals and diagnostic tests.

R&D breakthroughs have been evident in terms better infrastructure being made available to the discerning traveller. World class airports, passenger handling systems, better air, road, and rail connectivity, more user-friendly hotel rooms and convention facilities (aiding development of potential MICE venues), well-appointed knowledge papers and articles in niche areas of tourism in India and online portals boosting travellers' interests in diverse spheres, have enthused tourists.

There is also scope for further action in terms of policy changes. For instance:

Inclusion of Hotels as infrastructure: Under Section 80 IA of the Income tax Act, 1961, similar to airports, seaports and railways, all new hotel projects can avail the benefit of 100% deductions with respect to profits and gains, for a period of 10 years. This is expected to boost investments in this sector. Section 80 HHD of the Income Tax Act 1961, which was discontinued after 2005-06, to be revived and 'Export Industry Status' to be conferred to this industry so that it can claim deductions on foreign exchange earnings. This would boost growth.

100 percent FDI in developing tourism infrastructure in India: According to a WTTC report, India's travel and tourism industry will directly contribute INR 3,345 billion (USD 61 billion) to the GDP by 2019, allowing 100% foreign direct investment in hotel infrastructure development. This will prove to be a major growth driver for the industry.

Hotel sites to be identified: The government is to undertake this endeavour and give them out on long-term leases while developing guidelines to rationalise land sale and lease processes. This will help overcome the hurdles associated with high cost of land, and increase the room supply in the country.

Urban infrastructure and facilities to be provided to tourists in key tourist spots, such as the area around the Taj Mahal. Civic amenities to be improved through the PPP model

- Improving the approach roads to various tourism sites and providing better civic amenities in their vicinity.
- Identification of select model cities (major tourist hubs) by the Ministry of Urban Development, where a pilot PPP model-based civic amenities improvement scheme can be launched. This scheme can be run in collaboration with the Ministry of Tourism (MOT).

The above will aid in investment in Tourism infrastructure

One destination in each pro-active state to be developed as a model: This successful model can then be replicated across other destinations within that state as well as across the country in turn furthering the process of effective investment in hotel infrastructure

Declaration of tourism as an industry: Many states such as Tamil Nadu, Kerala, Uttar Pradesh, West Bengal, Arunachal Pradesh, Uttarakhand, and UTs of Daman & Diu, Dadar & Nagar Haveli have already granted 'industry status' to tourism. It is proposed that tourism should be included in Schedule 1 of the Industries Development Act 1951 and that all the remaining State Governments must recognize it as an Industry, so that hotels throughout the country can avail of the benefits under the Industrial Policy of the respective state governments:

- Land banks for budget hotels
- Exemption of duty on stamp paper
- Exemption / Concession in VAT and Sales Tax
- Property tax, electricity rates and water charges levied as per Industrial rates
- Single-window clearance for new hotel projects

Accelerated development of transport infrastructure: Exemption from Para 63, Service tax Act, 1994 is being sought. Service tax is now levied on services rendered by them such as renting of coaches/cars, which are used for tourist transportation, car rentals to foreigners and for which payment has been received in convertible foreign exchange. The amount for which payment is received in convertible foreign exchange should be exempted

In spite of the efforts promoting this sector, there are innumerable challenges waiting to be overcome:

- India needs to overcome the problem of inadequate capacity and this necessitates investments worth INR 600 billion over the next five years to meet the shortfall of about 1,50,000 rooms. According to the WTTC, the Indian tourism industry will be responsible for creating about 40 million jobs by 2019.
- Skill development through study and transfer of the best practices from across the globe; developing a 'sector skill development plan' and maintaining skill inventory will enable better competency standards and improved qualifications.
- Improving the approach roads to various tourist sites and providing better civic amenities in their vicinity.
- Identification of select model cities (major tourist hubs) by the Ministry of Urban Development, where a pilot 'PPP model-based civic amenities improvement scheme' can be launched and run in collaboration with the Ministry of Tourism (MOT).
- With the addition of Service tax in Budget 2011–12, India has by far, the highest taxes as compared to the neighbouring tourist destinations

The Table below illustrates the comparative tax rates between India and the neighbouring countries.

Countries	Room %	Food %	Liquor %
India	16	16	23
Hong Kong	0	0	0
Maldives	3.5	3.5	3.5
China	5	5	5
Japan	5	5	5
Malaysia	6	6	6
Thailand	7	7	7
Singapore	7.7	7.7	7.7

As seen from above, the high incidence of taxes in India certainly makes travelling abroad cheaper than that within India. This impacts inbound tourists and definitely promotes the outbound Indian traveller. Increased service tax on airfares makes them dearer. Independent restaurants' suffer with an additional 10% tax for being air-conditioned, in a country where temperatures soar up to 48–50°C. For an industry which is aggressively trying to bolster 'Domestic Tourism' this implies loss of business to neighbouring countries. For travel and tour operators this is a hinderance since they all sign their contracts, 12 months in advance. They have little choice but to either absorb the tax or lose the contract. This amounts to loss of revenue as well as credibility in the international market.

Emerging new products in Tourism

1. Golf tourism
2. Education Tourism
3. Domestic Tourism
4. Luxury Trains
5. Wedding
6. Eco-Tourism
7. Tea Tourism

8. Sports Tourism

9. Medical Tourism