

## The Developmental Role of FDI in Hospitality Industry in India

Tanvi

Assistant Professor, Institute of Hotel Management & Tourism  
Punjab University, Chandigarh

---

### Abstract

Hospitality sector holds immense potential for Indian economy. It can provide impetus to other industries through backward and forward linkages and can generate huge revenue earnings for the country. Liberalization policies have led to rapid growth in FDI flows in recent years. Basing on the benefits associated with FDI several developing, as well developed countries compete fiercely for FDI. They try to attract foreign investors by providing financial and fiscal incentives, undertaking corporate restructuring and economic reforms and inviting foreign investors in the privatization of hospitality units. The Indian hospitality industry is interwoven with the country's monetary development. As GDP continues to mature, it increases deals in fundamental infrastructure like transportation systems, accommodation systems which are necessary to support the hospitality industry. The Indian hospitality industry experienced a growth of 24.6% during 2010-2011 timeframe. The industry is the third-largest foreign exchange earner; accounting for 6.2% of India's GDP and 8.8% of the total employment. 100% FDI is permitted in the hospitality industry in India under various approvals. Restaurants, beach resorts and tourist complexes which facilitates accommodation and catering to the tourist are the sectors which have been receiving the maximum amount of FDI inflows in past few years. According to Ministry of Tourism in India, in last four years (2008-2012), total 1901 Hotel and Tourism Projects have attracted a big amount of 11,110.98 crores under FDI.

**Key words:** FDI, Hospitality Industry, Medical Tourism, Developing Economy

### Introduction

One of the most notable features of economic globalization has been the increased importance of foreign direct investment around the World. Some view it as an engine of economic growth and development while others look upon it as a panacea for all ills. It is, however, important to weigh the costs and the benefits of FDI to gauge whether FDI has positive impact on economic development. FDI has the potential to generate employment, raise productivity, enhancing competitiveness of the domestic economy through transfer skills and technology, strengthening infrastructure, enhance

exports and contribute to the long-term economic development of the world's developing countries. India is seeing FDI as a developmental tool in whole hospitality sector.

The Indian hospitality industry is interwoven with the country's monetary development. As GDP continues to mature, it increases deals in fundamental infrastructure like transportation systems, which is necessary to support the tourism industry. The hotel industry is directly connected to the tourism industry in India. Over the last decade, India has transformed into one of the most popular tourism destinations in the world, largely as a result of the government's "Incredible India" campaign which showed India in a new light to overseas tourists. In current years, the appearances of global tourists have improved by 16 percent, leading the resurgence of Indian tourism.

Under the automatic path, 100 percent FDI is allowed in hospitality industry. Many worldwide hotel groups are setting up their businesses in India and many global tour operators are establishing operations in the country. India is believed to be one of the top most tourism spot from 2009-2018, having the highest ten year growth potential, according to the World Travel and Tourism Council (WTTC). The country's travel and tourism industry is one of the most profitable industries in the country, and is credited with contributing a substantial amount of foreign exchange. Indian hospitality industry offers a potpourri of different cultures, traditions, festivals, and places of interest. Moreover, India has also emerged as one of the world's most cost-efficient medical tourism destinations. Medical tourism in the country is a sunrise sector valued at more than US\$ 310 million. Currently, India receives more than 100,000 foreign patients a year. It is expected that the Indian medical tourism market will register a compound annual growth rate (CAGR) of 27 per cent during 2011-15, according to a RNCOS report titled 'Booming Medical Tourism in India'.

### **Market Size**

The foreign tourist arrivals (FTAs) in India during September 2012 were registered at 415,000 as compared to FTAs of 402,000 during September 2011. A growth of 3.2 per cent was registered in September 2012 over September 2011.

The foreign exchange earnings (FEE) during September 2012 were worth Rs 6,652 crores (US\$ 1.26 billion) as compared to Rs 5,748 crores (US\$ 1.09 billion) in September 2011. The growth rate of FEE in rupee terms was 15.7 per cent in September 2012 over the corresponding month a year ago.

The FEE through tourism in India was recorded at Rs 77,591 crores (US\$ 14.67 billion) during 2011. The amount of FDI inflow into the hotel and tourism sector during April 2000 to July 2012 was

worth US\$ 3,450.97 million, as per data provided by Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce.

The overall hotel rates in India registered an increase of 12 per cent during the first six months of the year. This was due to a surge in demand from domestic travellers, as per the latest Hotels Price Index (HPI) study conducted by Hotels.com. The index looks at prices that people paid for their hotel rooms around the world.

### Investments in Hospitality Sector of India

Hotel and Tourism sector is declared as high priority sector and Foreign Direct Investment (FDI) up to 100%, under the automatic route is permitted in 'Hotels & Tourism Sector', subject to applicable laws/regulations, security and other conditionalities. As per report received from Department of Industrial Policy & Promotion, the details of the FDI equity flows from April 2008 to January 2012 in the hotel and tourism sector is as follows:

Sr. No.	Year (Apr-Mar)	Hotel & Tourism Projects	FDI (in crores)
1.	2008-09	489	2,098.23
2.	2009-10	582	3,566.32
3.	2010-11	403	1,405.15
4.	2011-12 (Apr-Jan)	427	4,041.28
<b>Grand Total</b>		<b>1901</b>	<b>11,110.98</b>

- India and Bulgaria plan to explore the possibilities of cooperation in the tourism sector. The two countries emphasised upon the need to start exchanges of visits of tour operators and opinion makers to promote tourism between the two countries
- Federation of Hotel & Restaurant Associations of India (FHRAI) has signed four memorandum of understanding (MoUs) with its international counterparts, spanning in USA, Europe, Middle East, UK, China and United Nations World Tourism Organisation (UNWTO) to exchange expertise and fraternity strategy evolution
- US-based Wyndham Hotel Group is set to expand to 70 properties in India by 2016. "India is a key market for us and we have nearly doubled our presence in the past two years," as per Mr Frank Trampert, Managing Director (APAC), Wyndham
- The Government of Maharashtra plan to set up an international cruise terminal at Mumbai port to attract international cruise tourists from Europe and the US

- KEF Company plans to invest Rs 1,600 crore (US\$ 302.46 million) in Kerala. The project includes a luxury hotel, integrated manufacturing facilities and a super specialty hospital in Kozhikode
- Toyota Enterprises has entered into a joint venture (JV) with the Bengaluru-based Hyagreev Hotels, which runs The Chancery Hotel in Bengaluru. The project is Toyota Enterprises' first, outside Japan
- Daiwik Hotels Pvt Ltd that debuted with a four-star property at Rameswaram in Tamil Nadu, plans to have a chain of properties at various pilgrimage centres in the country
- ITC has launched the world's largest LEED Platinum green hotel (an eco certificate), Grand Chola, in Chennai, Tamil Nadu, with an investment of over Rs 1,200 crore (US\$ 226.84 million).

### **Indian Hospitality Sector Overview**

Tourism is one of the third largest net earners of foreign exchange for the country and also one of the sectors, which employs the largest number of manpower. In order to develop tourism in India in a systematic manner, position it as a major engine of economic growth and to harness its direct and multiplier effects for employment and poverty eradication in an environmentally sustainable manner the state and central governments formulated several policies.

The hotel and 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. There was a key rush to inbound tourism in India in 2006 and a double-digit increase in the coming of overseas tourists to India in the same year. Tourism is one of the third largest revenue generators of foreign exchange for India and also employs one of the highest numbers of manpower. Conde Nast Traveler, one of the most decorated travel magazines, rated India as one of the hottest destination in the world. According to the World Tourism Organization, India will be the leader in the tourism industry in South Asia with 8.9 million arrivals by 2020. 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. The Indian tourism and hospitality industry experienced a growth of 24.6% during 2010–2011 timeframe. The industry is the third-largest foreign exchange earner, accounting for 6.2% of India's GDP and 8.8% of India's total employment, according to a report by the Planning Commission.

According to the Planning Commission, the sector creates more jobs per million rupees of investment than any other sector of the economy and is capable of providing employment to a wide spectrum of job seekers, from the unskilled to the specialized, even in the remote parts of the

country. The sector's employment-generation potential has also been highlighted by 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.

The size of the Indian hospitality industry is estimated as a sum of revenues of two segments — revenues generated from travel (business, leisure, visiting friends and relatives, religious, meetings and conferences) and revenue generated by consumers eating out at any form of outlet (restaurants, fine dining, quick service restaurants (QSRs), takeaways, or any other form of unorganized eateries).

The Indian tourism sector includes medical and healthcare tourism, adventure tourism, heritage tourism, ecotourism, rural tourism and pilgrimage tourism. Medical tourism also known as health tourism has emerged as an important segment, owing to India's skilled healthcare professionals and the lower cost of healthcare facilities in the country. Wellness tourism is regarded as a sub-segment of medical tourism and it involves the promotion and maintenance of good health and well being. Heritage tourism is oriented towards exploring the cultural heritage of a tourist location. India is well known for its rich heritage and ancient culture. Due to its varied topography and distinctive climatic conditions, India is endowed with various forms of flora and fauna, and it has numerous species of birds, mammals, reptiles, amphibians and plants life on offer for tourism. Wildlife tourism includes wildlife photography, bird watching, jungle safari, elephant safari, jeep safari, jungle camping, ecotourism, etc. MICE (meetings, incentives, conferences and exhibitions) tourism is also one of the fastest-growing in the global tourism industry. It caters largely to business travelers, mostly corporate. It caters to various forms of business meetings, international conferences and conventions, events and exhibitions. The Ashok, New Delhi; Hyderabad International Convention Centre, Hyderabad; and Le Meridian, Cochin, are forerunners in the Indian MICE tourism industry, facilitating domestic and international business meetings and conferences.

### **Policy and Promotion**

Cumulative foreign direct investment (FDI) inflows into the tourism and hospitality sector have been estimated at USD 2.37 billion between April 2000 and March 2011. According to the Ministry of Tourism, foreign exchange earnings from tourism during 2010 were estimated at USD 14.19 billion. The government has permitted 100% FDI in the sector under the automatic route, FDI into all construction and development projects including construction of hotels and resorts, recreational facilities, and city and regional-level infrastructure.

In terms of incentives, a five-year tax holiday is extended to organizations that set up hotels, resorts and convention centers at specific destinations. Besides this, the government has initiated measures to bolster the sector, such as provision of visa on arrival for tourists from Finland, Japan, Luxembourg, New Zealand and Singapore, and launch of several schemes that promote rural tourism and infrastructure related with the sector. The government has also launched campaigns such as Incredible India!, Colors of India, Atithi Devo Bhavah and the Wellness Campaign to promote the Indian tourism and hospitality industry.

For instance, the government has introduced a new category of visa, 'medical visa' ('M'-Visa), to promote medical tourism. Further, it has tied up with the United Nations Development Program (UNDP) to promote rural tourism. The ministry has sanctioned 102 rural tourism infrastructure projects to spread tourism and socio-economic benefits to identified rural sites with tourism potential.

### **Major Players of Indian Hospitality Industry**

Several international players, including Inter Continental, Hilton, Accor, Marriott International, Berggren Hotels, Amanda, Satinwoods, Banana Tree, Hampton Inns, Scandium by Hilt, Mandarin Oriental, Cabana Hotels, Premier Travel Inn (PTI), Marriott, Starwood and Accor have established a presence in the Indian hospitality space. The prominent Indian companies in the hospitality industry include Indian Hotels Company Ltd (IHCL), East India Hotels (EIH), ITC, Bharat Hotels, Asian Hotels and Hotel Leela venture.

In the restaurant space, some of the more prominent foreign players include Domino's Pizza, McDonalds, Pizza Hut, US Pizza, KFC and Costa Coffee. Most of these players have seen significant expansion in recent years and further expansion in smaller towns and cities is on the cards.

### **Future Trends**

According to the Indian Tourism ministry, the Indian tourism industry would be the third largest foreign exchange earner in the country in the next three year. Till the end of 2012, foreign tourists will grow at the fastest pace in comparison with the last decade and it is estimated that tourism in India could contribute US\$1.8 billion to India's GDP. These statistics show the seriousness of the Indian government towards tourism. Andhra Pradesh, Uttar Pradesh, Tamil Nadu, Karnataka and

Rajasthan are the leading tourism destinations in India in terms of total tourist arrivals. In the next few years, some new states should come into the picture such as Uttaranchal, Madhya Pradesh and a few others. According to the ministry, it is predicted that around US\$10 billion is required for the development of Indian tourism in the next five years. When we think of long term capital requirements for all the states, it would be nearly US\$56 billion in the next 20 years.

### **Why one should invest in Indian Hospitality Industry**

- Economic liberalization has given a new force to the hospitality industry
- The Indian hospitality industry is increasing at a rate of 15 percent yearly. The current gap between supply and demand is predicted to grow as the economy opens and grows
- The government predicted an additional requirement of 200,000 rooms in the next five years
- Due to stable political and social conditions in India, there will be an increase in the number of tourist arrivals. India is ranked fourth among the world's must see countries
- The present government in its process has taken a few projects like opening of the partial sky policy. This allows private domestic airline operators to fly on the Indian skies
- An increasingly growing middle class group, the arrival of corporate incentive travel and the multinational companies into India has bright prospects for tourism. India's easy visa rules, public freedoms and its many attractions as an ancient civilization makes tourism development easier than in many other countries
- The 5 star hotel sector has increased the fastest during the last five years at a CAGR of 12 percent. In the coming years, this sector can be divided into three sub-segments Luxury, Business and Leisure. The growth in this segment shows that segment of travellers coming into India. In the last few years India has seen a large inflow of business travellers in the country courtesy to relaxation of the government's stand on FDI for most of the sectors in the country
- It costs an average of US\$50-80 million to set up 5 star hotels with three hundred rentable rooms in India. The gestation period is generally between 3-5 years.

### **Suggestions by Reserve Bank of India**

The RBI has recommended a quarterly or annual reporting on the delivery and procedure of foreign inward payment, granting permission or license for running a hotel under which construction of the hotel should be finished within a given period, and norms under which the investor or the investee company would not be allowed to sell undeveloped plots. There are many limitations on buying of assets by non-residents. If they are establishing an office in India, which is not just a

liaison office, the RBI allows them to acquire fixed property. In such cases, a statement is necessary to be filed with the RBI within 90 days of acquiring the property. Overseas citizens of non-Indian origin who have acquired fixed property in India cannot relocate the property without the RBI's consent.

Suggestions include the following:

Lock-in period for original investment, which means foreign investors cannot sell and walk out of the Indian company whenever they choose

- A monitoring device to check FDI violations
- A quarterly/annual reporting on receipt and usage of foreign inward remittance
- Granting permission/license to run hotel under which construction of hotel should be completed within stipulated period
- Clauses under which investor/investee company would not be allowed to sell undeveloped plots
- Put onus of checking FDI violations on administrative ministry or states concerned

## **Conclusion**

There are certain points which make India a hot destination for investment in tourism department. First is the positive attitude of the government, who has allowed 100 percent FDI in this sector. Last year in the Indian union budget 2010, the Indian government has given more than INR1,000 crores to the Ministry of Tourism. Second, the tax holidays are being given to the organizations who want to invest in this sector. All this makes India's tourism industry a great investment option. According to WTTC India is fully poised to seize this opportunity given its "outstanding wealth of natural reserves and rich cultural heritage, its thriving business community and high levels of entrepreneurship" However, this opportunity can be seized only if India adopts a fundamentally new and proactive approach to tourism development. Among the many measures proposed by WTTC, rationalizing of taxation and evolving a uniform taxation system conducive to tourism forms a significant recommendation. Therefore, conclusively these two measures are main to attract more FDI in hospitality sector:

- Reconsideration the taxation policy on the hotel industry
- Service tax should be calculated based on the value of services given by the company

## **References**



1. Batra G.S., Tourism in the 21st century, (1996) Anmol publications Pvt. Ltd., 245 Pgs
2. Dirk William velde and Swapna Niar, (2005), Foreign Direct Investment, service trade negotiations and development -The case of tourism in Caribbean, Overseas Development Institute.
3. Federation of Hotels & Restaurants Association of India ltd, [www.fhrai.com](http://www.fhrai.com),
4. Govt. to review FDI in Tourism Sector, News and Features, New Delhi, February 13, (2007), [www.sarkaritel.com](http://www.sarkaritel.com)
5. Investment opportunities in Tourism Sector, Government of India portal Investment Commission <http://www.investmentcommission.in/tourism.htm#v>
6. Manpower recruitment in Hotel industry, A market plus report of Ministry of tourism, Government of India. <http://tourismindia.com>
7. Meyer, D, Foreign Direct Investment in Tourism - The Development Dimension - Expert Advisory Committee (2005-2006). Funded by United Nations Conference on Trade and Development, Geneva, Switzerland.
8. Meyer, D. (2006) FDI in Tourism: The Development Dimension. Case Study Sri Lanka. Geneva: UNCTAD
9. Usha C.V. Haley, (2001), Tourism and FDI in Vietnam, Haworth Press, pp 67-90