

FDI in Hospitality Sector – A review

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Abstract:-

Foreign Direct Investment is a component of a country's national financial accounts. Foreign direct investment is an investment of foreign assets into domestic structures, equipment, and organizations. It does not include foreign investment into the stock markets. Foreign direct investment is thought to be more useful to a country than investments in the equity of its companies because equity investments are potentially hot money which can leave at the first sign of trouble, whereas FDI is durable and generally useful whether things go well or badly. The world is in an era of globalization and liberalization, this has made the foreign investment possible and developing countries are reaping the benefit of the same. However, this investment showed inclination toward the manufacturing sector initially but with the change of time now even service sector is getting a boost as Investment is being made in this sector too. As per Hotels in India, 100% FDI is permissible in the sector. Though in Hotel and Tourism sector 100% FDI is permissible but then also response is not as huge as expected, many reason for this can be cited. In the current study, we have tried to analyze some of the major obstacles which act as pull factor for foreign investment in this sector. Also, the scope of Hotel industry in India and the benefit the company can get if they invest in this sector has been suggested.

Key Words: FDI, Foreign Direct Investment, Hospitality

Introduction:-

As per Moosa (2002) Foreign Direct Investment is the process whereby the residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in other country (the host country). The international monetary fund's balance of payments manual defines FDI as "an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of an investor, the investor's purpose being to have an effective voice in the management of the enterprise'. The United Nation 1999 World Investment Report defines FDI as an investment

involving long term relationship and reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other than that of a foreign direct investor.

Hence, FDI can be viewed as a component of a country's national financial accounts. Foreign direct investment is investment of foreign assets into domestic structures, equipment, and organizations. It does not include foreign investment into the stock markets. Foreign direct investment is thought to be more useful to a country than investments in the equity of its companies because equity investments are potentially hot money which can leave at the first sign of trouble, whereas FDI is durable and generally useful whether things go well or badly.

In order to take the benefit of this FDI, many developing countries permitted FDI and India is one of these. India is becoming land of opportunity. High and sustainable growth rate, a boom in aviation and real estate and improving infrastructure- together with easing restriction on foreign ownership and a wealthier population – have all contributed to the generation of new business.

In order to boost the Hotel and Tourism Industry, Indian Govt. has permitted 100% FDI in Hotel and Tourism sector. It is important to understand that the term hotels include restaurants, beach resorts, and other tourist complexes providing accommodation and/or catering and food facilities to tourists. 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.

A need for FDI is obvious in this sector as there is huge shortage of rooms and those rooms which are available are of low quality in most Indian cities.

Status of Hotels in India:-

The concept of travel and halting facilities are quite old in India. In ancient times, people used to travel for pilgrimage or business. For ages, India has been known for its hospitality. Endowed with rich historic heritage, cultural diversity, natural resource and geographical advantage, India remained a big attraction for foreigners

Tourism is the largest service industry in India, with a contribution of 6.23% to the national GDP and 8.78% of the total employment in India. India witnesses' more than 5 million annual foreign tourist arrivals and 740 million domestic tourism visits. The Ministry of Tourism is the nodal

agency for the development and promotion of tourism in India and maintains the Incredible India campaign.

According to World Travel and Tourism Council India will be a tourism hotspot from 2009–2018, having the highest 10-year growth potential.

The Travel & Tourism Competitiveness Report 2011 ranked tourism in India 12th in Asia Pacific region and 68th overall. Also, India is ranked 8th best tourist destination for its natural resources and 24th for its cultural resources with many World Heritage sites. Despite short- and medium-term setbacks, such as shortage of hotel rooms, tourism revenues are expected to go up.

Combining unparalleled growth prospects and unlimited business potential, the industry is certainly on the foyer towards being a key player in the nation's changing face. Furthermore, banking on the government's initiative of 100% FDI, upgrading and expanding the country's infrastructure like airports, national highways etc. the tourism and hospitality industry is bound to get a bounce in its growth.

With this increase, India needs to be ready with the quality accommodation to ensure guests are satisfied. Presently, the accommodation facility is not sufficient to accommodate expected increase in the volume of tourist in the coming years. Perhaps, this is the reason many Hotels are coming in India and opening their property here. Following chart depicts the status of different category of Hotel accommodation available in India:

Category of Hotels	No. of Hotels		No. of Rooms	
	As on 31.12.2009	As on 31.12.2010	As on 31.12.2009	As on 31.12.2010
One Star	55	67	2755	2537
Two Star	220	307	6539	8446
Three Star	511	869	23164	36585
Four Star	125	157	8652	12059
Five Star	98	149	11822	17144
Five Star Deluxe	109	153	23113	34187
Apartment Hotels	7	8	566	756
Time Share Resorts	1	1	62	62
Heritage Hotels	88	146	2545	3879
Silver Bed & Breakfast Establishment	357	469	1115	1540
Guest House	1	1	40	40
Unclassified	257	156	12411	580
Total	1829	2483	92784	117815

Source: Indian Tourism Statistics 2010 by Ministry of Tourism, Govt. of India

It is clear that India need more hotels so that guest can be satisfied with accommodation facility along with the destination. Even the hotels are unable to match the standard expected by foreign clients. The metropolitan cities of Delhi, Mumbai, Chennai, Hyderabad and Kolkata, along with Goa account for 62% of the rooms in five and four star category. The other smaller hotels are more geographically dispersed; this results from a string correlation between hotels in the unorganized sector and domestic tourism statistics. Places of pilgrimage such as Tirupati and Haridwar have significantly lower availability of rooms- 28 & 150 rooms per lakh of tourists, respectively.

Growth of Hotels in India:-

Large scale global chains like the Hilton, Accor, Marriott International, Berggruen Hotels, Cabana Hotels, Premier Travel Inn (PTI) and InterContinental Hotels group have planned to make a large-scale investment in the hotel industry in India, which would add 65, 000 additional rooms in various hotels in India. With various modes of foreign direct investment in the hotel industry in India, it is likely to touch USD 11.41 billion within the coming two years. The US-based HVS International has decided to invest in the hotel industry in India along with large-scale global players like Ashford Hospitality Trust and IFA Hotels & Resorts who are also planning partnership to make investments.

In order to grasp the opportunity provided by Foreign Direct Investment International hotel chain along with their Indian counter parts are planning to come up with new hotels in India. As per the Indian Tour Operator Promoting Council following new Hotels are in pipeline:-

1.) Marriott to add 24 hotels

International hotel chain Marriott is planning to add 24 luxury hotels in the country. Marriott International Regional Vice President (Hotel Development - Indian Subcontinent) said that these luxurious hotels will comprise of about 7,000 rooms.

2.) Panoramic Universal to launch new hotels in India

Panoramic Universal, a global hospitality player is going to launch for hotels in India. The hotels would be placed in Thane, Hyderabad, Durgapur and Pune.

3.) Ten New Hotels to dot the city of Hyderabad

Possibly by the end of this decade the city of Hyderabad would have over 10 new hotels which would be a mix of luxury as well as budget hotels. Big groups like The Park, Hilton, Hyatt, Accor and Trident have already made their plans to set up high-end star hotels here.

4.) Marriott joins hand With Unitech for 3 new hotels in India

US- based lodging firm Marriott International has entered into a long term management agreement with real estate developer Unitech to run three new hotels in India. The three new hotels would be located in Kolkata, Noida and Gurgaon.

5.) Accor Group has plans to set up 200 hotels in India

Accor, the worldwide famous hotel group has plans to establish 200 new hotels in India within this decade

6.) Kempinski and Leela Palaces & Resorts bring a chain of hotels

Kempinski Hotels and the Leela Palaces & Resorts have announced the extension of their Management Alliance in India. In the agreement signed by the heads of each group, Reto Wittwer, President & CEO of Kempinski, and Captain C.P Krishnan Nair, the honourable Chairman of the Leela Palaces and Resorts it is mentioned that in addition to the Leela Kempinski hotels in Mumbai, Bangalore and Kovalam, a further five hotels in New Delhi- Gurgaon, Udaipur, Chennai, Hyderabad and Pune will be constructed in the next four years. The first of the new hotels under this agreement has already opened in 2005 and will be rechristened as The Leela Kempinski Kovalam Beach Resort.

7.) Larsen and Tubro's new venture in Bangalore

The idea of leasing land for the construction of a hotel with recreational facilities for travelers is being considered in Bangalore. Larsen and Tubro will undertake the construction work.

8.) Starwood and Vatika set for the Westin New Delhi Hotel & Residences

Starwood Hotels & Resorts and Vatika Group, one of the leading real estate and hospitality players in India have announced an agreement to construct The Westin New Delhi Hotel & Residences in Gurgaon, India. The hotel however will be managed by Starwood and will feature 300 rooms, five restaurants, and 17,500 square feet of meeting space, a 16,000 square-foot health and spa center, as well as upscale retail outlets. Located strategically in Gurgaon, the hotel will provide travelers easy access to key convention and commercial offices.

9.) Hyatt plans to launch 15 five star and deluxe hotels and resorts in India

The US based Hyatt International Hotels and Resorts has planned to add another 15 five star and delux hotels and resorts in India over the next three to four years. Hyatt will set up two hotels each in Bangalore, Hyderabad and chennai. It also has plans to expand its construction network in Mumbai, Ahmedabad, Chandigarh and Gurgaon. It is eyeing on Kerala and Goa as the prospective sites for resort construction.

10.) Shangri-La to check into Bangalore

Hong-Kong based Shangri-La Hotels & Resorts is launching its first business hotel brand 'Traders Hotel' in Bangalore. Apart from this business hotel, this hotel group would operate two five-star hotels.

11.) Accor Launches first new hotel in India

Accor has recently launched its first newly built hotel in India- Novotel Hyderabad. The hotel has 287 spacious rooms and features two restaurants, swimming pool, fitness centre and business centre.

12.) Lemon Tree Hotels on major expansion spree

Lemon Tree Hotels has drawn a major expansion plan and will be launching two more hotels in Goa and Pune. In addition, seven more hotels are under development across cities like Chennai,

Delhi, Goa, Hyderabad, Jaipur, Mumbai and Pune. In addition, three other Red Fox Hotels in the economy segment are under construction in Mumbai, Jaipur and Hyderabad. Currently two Lemon tree Hotels are operational at Udyog Vihar and City Centre, Gurgaon.

13.) Le Meridian Plans to launch 10 more hotels in India

Le Meridian Hotels & Resorts plans to launch largest number of hotels in India. The UK based Le Meridian group of hotels currently has a major of 10 hotels across India and has made plans to double the base to 20 hotels in India. Robert E Riley, the CEO of Le Meridian Hotels & Resorts made this announcement.

14.) 38 New Budget Hotels for India

Berggruen Hotels has come up with a huge plan of setting 38 new budget hotels in India in the coming five years at an investment of \$ 100 million. The hotels would be constructed in major destinations of India.

15.) Banyan Tree to start Rs. 1500 million JV hotel in Kerala.

The internationally acclaimed, Singapore based hospitality group - Banyan Tree Hotels and Resorts is to start an Rs.1500 million luxury resort in the backwaters island of Chertalla in Kerala's Alappuzha district. The resort would be the most luxurious in India offering all possible comfortability level to the visitors from all across the globe.

16.) Best Western to develop 100 hotels.

Cabana Hotel Management Pvt Ltd, the Indian master licensee for Best Western, the world's largest hotel group, will develop 100 hotels in India's emerging business centers over the next seven to eight years with an investment of \$1.2 million. Cabana has already made plans for making six hotels in Ooty, Bangalore, Jaisalmer, Kanyakumari and Jaisalmer and now is moving ahead to Delhi, Chandigarh, Hyderabad, Chennai, Surat, Patna, Aurangabad, Nagpur.

World's leading hotel brands are planning to enter the Indian hospitality industry in joint venture with various domestic hotel majors of India. Even new brands such as Amanda, Satinwoods, Banana Tree, Hampton Inns, Scandium by Hilton and Mandarin Oriental are no more lagging behind in this matter

Challenges in FDI in Indian Hotel and Tourism Sector:-

Though, many international hotel chains are investing in the Indian market, but still the magnitude of this investment is low compared to other countries. Some of the reason for this is as follows:-

- **Screening Stage:** - When a foreign investor considers making any new investment decision, it goes through four stages in the decision making process and action cycle, namely, (a) screening, (b) planning, (c) implementing and (d) operating and expanding. The biggest barrier for India is at the first, screening stage itself in the action cycle. Often India loses out at the screening stage itself. This is primarily because decision making is a time taking process here, promotional effort is quite often of a general nature and not corporate specific and India is, moreover, a multi-cultural society and a large number of multinational companies (MNC) do not understand the diversity and the multi-plural nature of the society and the different stakeholders in this country.
- **Poor Infrastructure:** - One of the major pull factors for investor is the poor infrastructure of the country. Inadequate and poor quality road, railway lines and ports raise the cost of export. Even the regional differences in infrastructure concentrate FDI to only a few specific regions.
- **Time Taking Procedures:** - The approvals of the FDI project take more time than usual and hence this gives a negative publicity among interested investors and the FDI suffers a setback.
- **Tax Complications:** - One of the major drawbacks for Indian tourism system is that it has to undergo multitude of central and state level taxes.

Opportunities in FDI in Indian Hotel and Tourism Sector:-

Liberalization reform in the 1990s has changed the face of India and India has now become one of the fastest growing economies of the world and one of the most attractive emerging markets for foreign Direct Investment (FDI). India's share in World's GDP is

expected to rise, not only due to impressive decent growth rate, but more importantly due to optimistic forecast of high sustainable growth.

The driver of Indian economic boom resides in both industrial and service sectors. Services have been expanding, the average growth rate jumped from 9.8 to 11.2 percent between 2006-2007 with trade, Hotels, Transport and communication growing by an aggressive rate of 13%.

The growing Indian market, regulatory reforms and availability of skilled work force and democratic government have been important factors in boosting FDI inflows to this sector in India.

Foreign tourist arrivals are expected to grow to 12 million by 2014-16 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. There is a rapid growth in average room rates and is expected to continue until sufficient new supply come on stream.

India's hotel pipeline is the second largest in the Asia-Pacific region according to Regional Managing Director, Inter Continental Hotels Group (IHG) Asia Australasia. Indian hospitality industry is projected to grow at a rate of 8.8 per cent during 2007-16, placing India as the second-fastest growing tourism market in the world. Initiatives like massive investment in hotel infrastructure and open-sky policies made by the government are all aimed at propelling growth in the hospitality sector.

The Government of India has announced a scheme of granting Tourist Visa on Arrival (T-VoA) for the citizens of Finland, Japan, Luxembourg, New Zealand and Singapore. The scheme is valid for citizens of the above mentioned countries planning to visit India on single entry strictly for the purpose of tourism and for a short period of up to a maximum of 30 days

As per the press release by Press Information Bureau dated 17th May, 2010, Ministry of Tourism has sanctioned the following tourism projects:

- A world class illumination technology for promotion of night tourism will be employed for projecting the unique architecture of the monuments and buildings of Chandigarh. An amount of US\$ 1.1 million has been earmarked for this venture
- Focusing on promoting tourism, sustainable in harmony with the surroundings, eco-tourism projects in Morni and Pinjore hills (Haryana) to the tune of US\$ 729,753, Development of Morni Hills and Tikar Tal to the tune of US\$ 1.1 million is in the pipeline. Besides, eco-tourism in Kalesar is being developed for an amount of US\$ 697,876

Domestic tourism is also witnessing an increase in the recent year. This implies that people are now travelling and exploring different tourist destination within the country also, hence, providing ample opportunity for people engaged in this business to make the most of it.

Conclusion:-

In the era of Globalization, FDI has become need of the hour, more importantly in the hotel and tourism sector. India needs to compete with the international standard hotels, this is possible only if international chain brings their skills, knowledge and resource and invests the same here. Govt. initiative to provide 100% FDI in this sector is praiseworthy and the result of it can be seen. Global chains like the Hilton, Accor, Marriott International, Berggruen Hotels, Cabana Hotels, Premier Travel Inn (PTI) and InterContinental Hotels group have planned to make a large-scale investment in the hotel industry in India. But the need of hour is to ensure that these chains when facing the ground reality should not find investing in India a cumbersome task. Issues like poor infrastructure (mainly road, rail networks etc.), obstacles from the states, Legal delay, Tax policy, procedure delay etc. should be dealt with appropriately and timely.

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