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Foreign Direct Investment and its impact upon the Indian Hospitality Industry

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Abstract

Foreign direct investment (FDI) is a vital aspect for economic growth and development of the Indian hotel industry as it generally tends to strengthen the capital amounts available, enhances productivity and creates employment. FDI is also important in the upgrading of technology, skills and managerial capabilities in various sectors of the industry and also within the overall economy. The present study is an attempt to analyse the status, role and importance of FDI in growth and development within the Indian hotel industry. The hotel and tourism industries burgeoning development have effects on the economy of India which are considerable when viewed from an economic perspective. Viewed as a multidisciplinary activity involving several industries and drawing upon a variety of skills, the benefits of FDI are spread over a wider section of society compared to those from other sectors of the economy. FDI should thus play a significant role in developing the hotel industry in India and also in other developing countries, by providing the required capital and infrastructure which is needed, such as international airports, highways and related modern technologies which are all in any event, keystones to tourism development and critical to economic growth.

Key words: FDI, hotel industry, India, employment.

Introduction

Status of the Hotel industry in India

The Indian hotel industry along with tourism industry have emerged as the primary factors of growth in the services sector in India. The third-biggest sub-segment of the services sector encompassing trade, repair services, hotels and restaurants contributed US$ 187.9 billion or 12.5 per cent to the Gross Domestic Product (GDP) to the growth in the year 2014-15. This showed the fastest growth over the period 2011-12 to 2014-15 at a booming 11.7 per cent Compound Annual Growth Rate (CAGR). The Hospitality industry in India has notable aids when considering its rich cultural and historical heritage, the wide variety in ecology, terrains and places of natural beauty which are spread across the entire country. The industry is also a potentially a very large employment generator besides being a significant source of foreign exchange for the country.

The Indian hotel industry when viewed along with the tourism industry is expected to generate 13.45 million jobs across sub-segments such as the Restaurants sector (10.49 million jobs), Hotel sector (2.3 million jobs) and Travel Agency/Tour Operator sector (0.66 million). The Ministry of Tourism plans to help the industry meet the increasing demand of skilled and trained manpower by providing hospitality education to students as well as certifying and upgrading the skills of existing service providers. India has moved up 13 positions to 52nd rank from 65th in the Tourism & Travel competitive index.

Market Size

The number of Foreign Tourist Arrivals (FTAs) has grown steadily in the last three years reaching around 7.103 million during January–November 2015 (4.5 per cent growth). The number of FTAs in November 2015 was 815,000, registering an increase of 6.5 percent over November 2014. Foreign Exchange Earnings (FEEs) from tourism during January-November 2015 were Rs 1,12,958 crore (US$ 16.94 billion), registering a growth of 1 percent over same period last year. The number of tourists arriving on e-Tourist Visa during the month of October 2015 reached a total of 56,477 registering a growth of 1987.9 percent or 21 times as compared to 2,705 tourists in October 2014. Online hotel bookings in India are expected to double by 2016 due to the increasing penetration of the internet and smart phone usage.

Investments

The tourism and hospitality sector is among the top 15 sectors in India to attract the highest Foreign Direct Investment (FDI). During the period of April 2000 - September 2015, the hotel and tourism sector attracted around US$ 8.48 billion of FDI, according to the data released by Department of Industrial Policy and Promotion (DIPP). With the rise in the number of global tourists and ability in realising India's potential, many companies have invested in the tourism and hospitality sectors. Some of the recent investments in this sector are as follows:

- Fairfax-owned Thomas Cook has acquired the Swiss tour operator Kuoni Group's business in India and Hong Kong for about Rs 535 crore (US$ 80.3 million) in order to scale up inbound tourism business.
- The US-based Vantage Hospitality Group has signed a franchise agreement with India-based Miraya Hotel Management to establish its mid-market brands in the country.
- The Thai firm Onyx Hospitality and Kingsbridge India hotel asset management firm have set up a joint venture (JV) to open seven hotels in the country by 2018 for which the JV will raise US$ 100 million.
- ITC is planning to invest about Rs 9,000 crore (US$ 1.35 billion) in the next three to four years to expand its hotel portfolio to 150 hotels.
- ITC will also launch five other hotels - in Mahabalipuram, Kolkata, Ahmedabad, Hyderabad and Colombo - by 2018.
- Goldman Sachs, the New-York based multinational investment banking fund, has invested Rs 255 crore (US$ 38.3 million) in Vatika Hotels.
- The Japanese conglomerate SoftBank will lead the Rs 630 crore (US$ 94.5 million) funding round in Gurgaon based OYO Rooms.

- MakeMyTrip will acquire the travel planning website Mygola and its assets for an undisclosed sum, and will together look to focus on innovating the online travel segment.

Foreign Direct Investment (FDI)

Foreign Direct Investment IMF (2003) provides the most widely shared and accepted definition of FDI. It defines it as a category of international investment that reflects the objective of a resident in one economy (the direct investor) obtaining a lasting interest in a company resident in another economy (the direct investment company). The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment company, and a significant degree of influence by the investor on the management of the company. A direct investment relationship is established when the direct investor has acquired 10 percent or more of the ordinary shares or voting power of a company abroad. Direct investment comprises not only the initial transaction establishing the FDI relationship between the direct investor and the direct investment company but also all the subsequent capital transactions between them and among affiliated companies which are resident in different economies. Therefore, FDI is the investment made by an entity in a foreign country that can take the form of Greenfield Investment or Mergers and Acquisitions (the level of ownership can be Sole-Venture or Joint-Venture).

FDI plays an increasingly important role in the economy of diverse countries in the world. The advantages of FDI in a given economy, as well as the importance of developing actions to attract this type of investment, are widely debated and presented by various authors. The impacts of FDI comprise very attractive economical, governmental or social factors for any country. Many authors are unanimous in stating that FDI is an important vehicle for technology transfers and management knowledge and skills, and represents an important role in promoting economic growth and development (Borensztein, Gregorio and Lee, 1998; Mohamed and Sidiropoulos, 2010; Zhang, 2001). Some of these authors also indicate other advantages of FDI like creating employment, increasing wages, creating capital and profits, improving national productivity, stimulating local entrepreneurship and promoting competition and efficiency. FDI can also be a means to finance the acquisition of new structures and equipment, and result in spill-overs to the local economy through the connections that are made with the local suppliers, competitors, benchmark and training. It integrates the domestic economy in international chains that may offer a reduction of input costs, promote economies of scale and increase exports.

A literature review shows that FDI also brings negative effects. According to Adames, (2000), FDI reduces the productivity capacity of the host country and inhibits the appropriate technology flow consistent with domestic markets. Another negative effect is the increasing level of foreign investment and the continuous remittance of indigenous funds to developed countries destroying the availability of domestic capital reducing the opportunities for domestic investment. Similar negative impacts are presented by other authors (Figlio and Blonigen, 2000; Reddy and Zhao, 1990; Saggi, 1999).

According to Amirahmadi & Wu, (1994), FDI sometimes tends to operate in enclave, in which a tendency exists of the Transnational Corporations (TNCs) to internalize production and distribution to reduce costs. There are many times when profits are not invested in the host countries and the TNCs have total control over some sectors, taking into consideration the many specific benefits of these companies (brand, superior technologies, and management skills, amongst others). Determinant factors in the FDI attraction process (Tsai, 1994) stated that empirical research about FDI determinants and their consequences have increased in recent years. These studies demonstrate that when a company decides to invest in another country, it takes into consideration the contextual analysis of the surrounding environment (common to all companies) and the transactional (specific to each sector). In addition to this analysis, it is necessary to analyse the company (human, financial and organizational resources).

A large number of authors agree that political and economic stability is essential for FDI to exist, and that the size of the host market has been considered to be one of the most important incentives for FDI. Many authors have identified throughout the years' other determinant factors in the FDI attraction process. Research from Amirahmadi and Wu, (1994); Chen and Hu, (2002); Ojala, (2008); Resmini, (2000) identifies cultural, psychic and geographical proximities as factors to be considered. Some writers consider specific company characteristics as determinants (Cheng and Kwan, 2000; Davidson, 1980; Konopaske, Werner, and Neupert, 2002). Factors such as company size, international experience, the existence of branches, economies of scale, preference of potential competitors, availability of skilled labour and new supplier networks are also important.

Several studies, including those by Fatehi-Sedeh and Safizadeh, (1988); Tu and Schive, (1995), were concerned with explaining the socio-political determinants, as political stability or risk of the country, corruption and political freedom. Human capital as a FDI determinant is identified by authors (Michie, 2001; Noorbakhsh, Paloni, and Yousset, 2001), who identify the importance of educational level and workforce skill. Other studies (Moosa and Cardak, 2006; Resmini, 2000; Tsai, 1994) focus on macroeconomic factors (GDP, exchange rate policy, economy openness, exports, exchange rates, interest rates and inflation).

Various researchers' (Agarwal and Ramaswami, 1992; Biswas, 2002; Cheng and Kwan, 2000) name some microeconomic indicators that influence FDI (market size and growth, governmental policies, tariff and trade barriers). Despite the information related to the importance of FDI determinants presented, it is obvious that these are not all relevant at the same time. The research also clearly states that the relevance of each determinant depends on the origin and host countries, the characteristics of the companies and the type of FDI that is being analysed.

FDI in the Hotel Industry in India

The hotel and tourism industry is among the top 10 sectors attracting foreign direct investment (FDI). According to the Department of Industrial Policy and Promotion (DIPP), this sector attracted about US$ 7,441 million of FDI between January 2000 and August 2014.Hotel and Tourism industry is presently occupying 3.28% share of total FDI equity inflows (Table 1). Various international hospitality companies such as Hilton, Accor and the InterContinental Hotels Group have already announced major venture plans in India, and hospitality division is expected to see an additional US$ 11.41 billion in inbound investments over the next two years (Dezan Shira and Associates, 2013).

Table 1: FDI inflows in hotel and tourism industry (January 2000-December-2015)

Sectors	Amount (USD - Million)	% share
Hotel & restaurants	6398.87	3.04
Tourism	426.41	0.20
Other (Hotel and Tourism)	84.90	0.04
Total	6910.19	3.28

Source: compiled from SIA statistics. Department of Policy and Promotion

MakeMyTrip Ltd is planning to invest US$ 15 million with a focus on e-tourism in India. Given the role of the Hotel and Tourism industry in Inclusive growth, this sector is declared as a high priority sector for investment and 100% foreign direct investment (FDI) is permissible in the sector on the automatic route. This investment is permitted in construction of hotels and other tourism related projects and operations such as airport expansion projects. The term 'hotels' includes restaurants, beach resorts, and other tourist complexes providing accommodation and/or catering and food facilities to tourists. In most countries this is referred to as the hospitality sector or even industry.

The tourism related industry is also broadly defined in that comprises travel agencies, tour operating agencies, tourist transport operating agencies and other units providing facilities to tourists. In addition, a five-year tax holiday is granted to organizations that set up hotels, resorts and convention centres at specific destinations.

Reasons to invest in the Hotel industry

Encouraging growth of tourism in India is possible and according to the World Tourism Organization, by the year 2020, India will become the leader in the tourism industry in South Asia, with about 8.9 million arrivals. Inbound tourist expenditure per head in India, is third highest in the world and even more than the global average of tourist spending (FICCI Report, 2014). ·

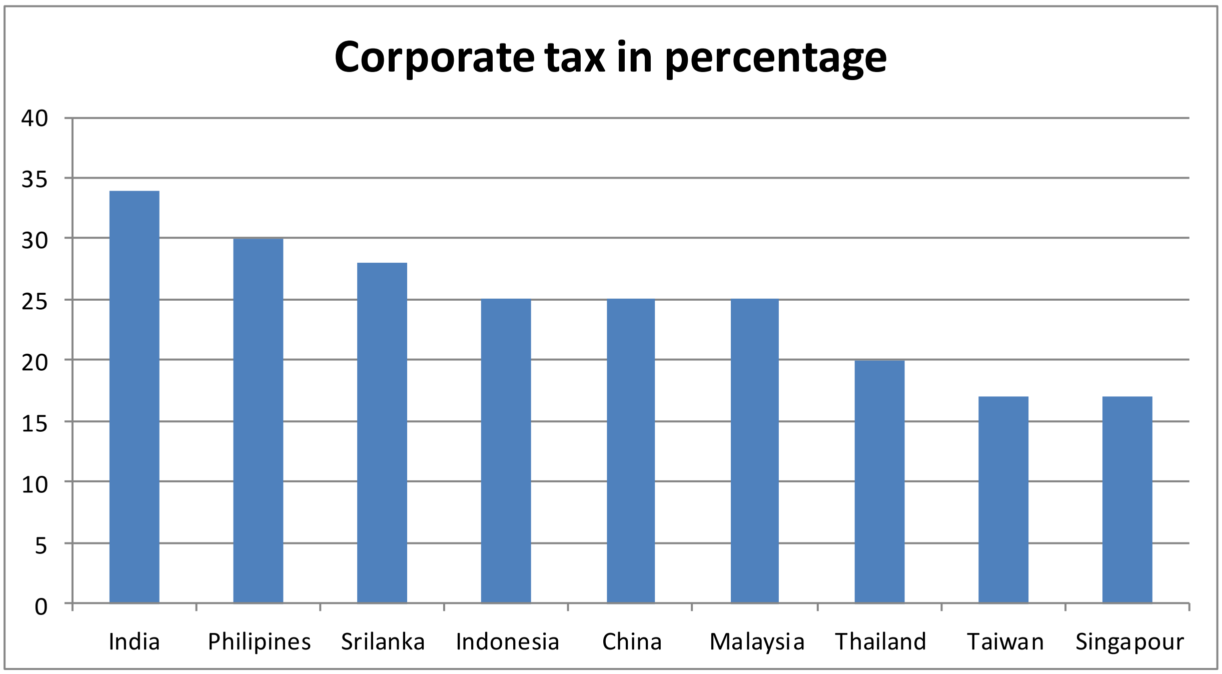
Internet and 3G services are expanding in the country which is helping to overcome the problematic communication barriers given that there are over a thousand dialects. Demographically divided we find that about 65% of people in the country are less than 35 years of age. There is also a change in the lifestyle of young Indians which has boosted the prospects of inbound tourism. Disposable income in the hands of middle class is increasing due to the positive economic growth of India. The emergence of many new tourism areas such as Eco-Tourism, Cultural Tourism, Medical Tourism, Wellness Tourism, Agriculture Tourism, Adventure Tourism and Cruise Tourism. Reforms in the aviation sector such as for example, the Open Skies Policy leading to better connectivity with other nations is also useful. Increases in the number of online travel agents like Make My Trip, Yatra Online, Jet Airways, Trip Advisor Media Group, clear trip, Expedia, Travora Media, and Must See India is a positive step forward.

Challenges in attracting FDI in the Hotel Industry

Multiple tax structure: Tax structure of India is hounding the consumer as there is a multiplicity of taxes. India's tax is the highest among all the Asia Pacific countries. There is also a provision of Expenditure Tax on Hotels at central level, while Luxury Tax on hotels is only at the state level. Given the multiple tax structure some international hotel chains are hesitant to initiate their business in India and seek 'greener pastures' in which to invest.

Highest tax structure: India, with a 33.99% rate of corporate tax, is one among twenty countries in the world which has the highest top marginal Corporate Tax Rates (Figure 1). The High tax structure leads to a very high cost of tourism in the country which is a strong reason for the relatively low competitive position of India.

Figure 1. Comparatively high corporate tax rates in India
Source: taxfoundation.org/article/corporate-income-tax-rates-around-world-2016



Service tax on travel intermediaries: Travel intermediaries can be tour operators (wholesalers) and travel agencies (retailers). These intermediaries provide a wide range of services to tourists starting from booking of various types of tickets to arrangements for boarding and lodging, transportation, sight-seeing and guiding services. In the 2015-16 budget, service tax exemption has been given for Indian tour operators arranging tours for foreign travellers wholly traveling outside India and CENVAT credit has also been extended for tour operators. But, radio cab operators have been brought under the service tax ambit and tax is still a burden for tourists when it comes to hotel room rent, and food and beverage consumption. The heavy indirect tax structure increases the financial burden for the end-users and decreases the competitiveness of India to attract foreign tourists.

Lack of coherence in varied policies: According to UNCTAD Secretary-General, Supchai Panitchpakdi: "It is encouraging to see that the contribution of tourism to development, poverty reduction and economic growth is increasingly recognized. But it can only be achieved by better policy coherence between and among the various ministries and government departments that provide the enabling environment for tourism to flourish". So it is clear that there is a need for an inclusive and integrated policy framework in India i.e. trade policy, taxation policy, foreign exchange policy, and information technology related policy which should ideally be in tandem with a progressive tourism policy.

Diffusion of technology: E-Tourism is low in India due to the lack of easy reach and the high cost of technology. People are lacking in the necessary e-skills and are essentially unaware of the wide array of e-tourism benefits. In such a scenario and tricky situation, an integrated strategy of e-skills creation, ICT development and diffusion, local networking, and cooperation projects is highly necessary. India is lacking in the provision a good ICT infrastructure such as telephone lines, mobile cellular subscriptions and internet facility, so policy makers should focus on creating a good ICT infrastructure for speedy delivery of information as well as services to foreign tourists.

Skilled human resource: By 2022, there is an additional requirement of 2.7 million employees for the tourism sector along with requirements of 2.8 million for restaurants, 4.1 million for hotels and 0.3 million for the travel trade segment (NSDC study). It is a challenging task to cater for this demand for employable human resources and to impart the required skills and knowledge among the aspirant job seekers.

Although FDI is a way in which countries may expand the Hotel industry along with Tourism, the dynamics and implications of FDI in this sector have not been studied amply. Buckley and Geyikdagi, (1996) pointed out that FDI has received little attention due in large part to the difficulties in obtaining information and data. Tourism for (UNCTAD, 2007) is not a singular activity, it is an agglomeration of many separated but related activities that include transportation, accommodation, food and beverage services, entertainment, culture, conventions, trade fairs, sports and recreation.

Based on the available data, FDI in Hotel industry continues to be low, compared to other FDI levels in other economic activities (Dwyer and Forsyth, 1994; Peric and Radic, 2010; UNCTAD, 2007). This is due to the fact that Tourism is made up of a number of diverse and interrelated activities, which do not always make it possible to distinguish the foreign from the domestic investors. Moreover, the frequent use of management contracts or franchising operations make it difficult to collect data and causes this gap between official FDI data and the activities of the companies.

The impacts of FDI may vary according to the characteristics of the countries, the historical context and the characteristics of the companies. Several authors analyse the positive impacts (Bull, 1990; Forsyth and Dwyer, 1992; Purcell and Nicholas, 2001). FDI complements domestic investment, promoting trade, knowledge transfer, skills, technology and advanced management. It creates jobs, trains employees and helps place destinations on the global tourism map. Foreign brands improve the image of locations, and at the same time bring stability and trust (UNCTAD, 2007, 2008). FDI provides access to global marketing and to global distribution networks (Barrowclough, 2007). According to Peric and Radic, (2010), FDI contributes to the improvement of infra-structures in the host country, such as airports, motorways and hotels.

A number of authors also identify the negative effects (Clancy, 1999; Freitag, 1994; Oppermann, 1993; Thompson, O'Hare and Evans, 1995). Copeland, (1991) argues that when there is too much FDI, it may result in an excessive trust and a high risk to the host community. Furthermore, Brohman, (1996) believes that although FDI stimulates the expansion of Tourism, many developing countries face enormous challenges to overcome poverty and inequality, which is sadly the case many times, due to the economic domination on behalf of the TNCs, giving rise to unequal socio-economic relationships.

Barrowclough, (2007) claimed that FDI in Tourism focuses mainly on Hotel accommodation. Dunning and Mcqueen, (1981), relying on the Eclectic Theory, were the first to make a profound attempt to explain the forms of TNC involvement in the international hotel industry. The study indicated three reasons for internationalization in the accommodation sub sector: Ownership advantages, Location advantages and Internalization advantages. The aim of subsequent studies was to identify determinant factors to attract FDI to the Tourism sector. Political, economic and social stability of the host country is seen as an attraction factor by multiple researchers including (Dunlop, 2003; Dunning & Kundu, 1995; Dunning and Mcqueen, 1981; Endo, 2006; Go, Pyo, Uysal, and Mihalik, 1990; Hong, Jones and Song, 1999; TeVelde and Nair, 2006; Zhao and Olsen, 1997).

Another determinant relates to the specific characteristics of the company (Ownership Issues), measured according to the size of the company, ability to obtain economies of scale, international experiences, strategic development of the brand and level of technological advances of the company (Buckley and Geyikdagi, 1996; Dunning and Kundu, 1995; Dunning and McQueen, 1982; Endo, 2006; Johnson and Vanetti, 2005; Kantarci, 2007; Rodríguez, 2002). For most of these authors the specific advantages of location are also very attractive (the size, growth, state and development of the tourism market; tourist facilities; Government policies towards FDI; the number and type of attractions; cheap labour and natural and cultural resources). In the opinion of Go, et al., (1990) and Zhao & Olsen, (1997), similarities in language and culture between the country of origin and the host country tend to facilitate the FDI process. Geographical, cultural and historical proximity may also influence the process (Endo, 2006; Rodríguez, 2002; UNCTAD, 2007).

In the South African context, for Snyman and Saayman, (2009) there is a correlation between the countries that invest more and the origin of tourists that visit South Africa more frequently. Buckley and Geyikdagi, (1996) also reach the same conclusion in their study about Turkey. The same is true in China, according to Tang, Selvanathan, and Selvanathan, (2007). Some authors refer to specific aspects that make the Tourism sector of a country more attractive, such as the existence of General Agreement on Trade in Services (GATS). Many authors (Dunlop, 2003; Lee, Fayed and Fletcher, 2002; TeVelde and Nair, 2006) reported that the existence of GATS agreements is just one of many factors that encourage a foreign investor to enter the market and that a positive relationship between GATS and FDI exists. Jarvis and Kallas, (2008) also believe that being part of the European Union is also a FDI attractive factor.

Steiner, (2010) concludes that FDI in Tourism is influenced by Regulatory Framework, and also the performance and liquidity of a national economy. On the other hand, bureaucracy, tax burdens, exchange rates and inflation rates may deter FDI (Go, et al., 1990; TeVelde and Nair, 2006; Zhao and Olsen, 1997).

The literature review shows that the decision to invest abroad is conditioned to external and internal factors. The external factors are related to characteristics of the countries, while the internal factors are related to the characteristics of the companies present within it. FDI in

Tourism is also conditioned to the extent of the tourism demand to a specific destination, as well as its specific activities related to Tourism. The size of the economy and the growth rates are also important reasons for choosing the location and this may be indirectly affected by governmental policies and FDI incentives.

Tourism and hotel industry has been a key sector earning foreign exchange for the Indian economy and contributes significantly to the GDP. According to the World Travel and Tourism Council (WTTC) annual report 2014, every $1 million in hotel spending in India generates $1.3 million in GDP. It has been working as a harbinger of 'more inclusive growth' in India by promoting other industries inside the economy through backward and forward linkages and generating employment in various sectors such as hospitality, travel, and entertainment. According to WTTC, the Indian tourism industry can create about 40 million jobs by 2019. Moreover, it has been fulfilling long-lasting socio-economic objectives of the Indian economy by integrating the people at national level and creating international sensitivity to the nation as a destination.

Foreign direct investment (FDI) has been considered as a key for faster economic growth and development, given its potential to increase productivity, generate employment opportunities, expansion of infrastructure facilities and development of domestic competitiveness. The Indian government has undertaking several financial and fiscal reforms to attract foreign investors. Resulting to these reforms, FDI not only escalated in quantum but its composition has also changed tremendously. The sectors attracting maximum FDI have been *inter-alia*, the service sector, telecommunication, computer software, and hotel and tourism.

At present, the Hotel and Tourism industry is occupying 3.28% share of the total FDI equity inflows (DIPP 2015). 'Inclusive Growth' has been an exclusive goal in India's economic planning since the last decade. In the 12th plan the government also redefined their role from a regulator to a catalyst in tourism development and a 'pro-poor tourism' approach has been adopted for the reduction of poverty and inclusive growth. Inclusive growth is broad-based growth across all sectors of an economy, and it is inclusive of low and middle income groups, and has a distributional aspect aiming to reduce income inequality (Hampton and Jeyacheya, July 2012). The concept of inclusive growth results in poverty reduction through the creation of employment opportunities across all segments of Indian society. It includes the excluded agents whose participation is essential in the development process and not just the welfare targets of development programs (Planning Commission 2007). Inclusive growth implies that the benefits of accelerated economic growth of an economy must be shared by the disaffected and very deprived masses.

Nowadays, there is a growing agreement on the positive contribution of tourism in inclusive and sustainable growth and development of a country. United Nations Conference agree that tourism stimulates the local economy in destination countries through its supply-chain linkages with other economic sectors, particularly in agriculture and manufacturing. It promotes entrepreneurship and the growth of SMEs. Tourism bolsters the diversification of the local economy and it generates export income. Tourism-related demand for goods and services creates new jobs, in particular for youth and women, thus contributing to poverty reduction. Tourism could help generate income for populations in remote and rural areas, thereby reducing incentives for urban migration. In some countries, tourism has created funds for the conservation of biodiversity and the protection of the very assets on which it is based. Last but not least, tourism could contribute to the image building of a country. (UNCTAD XIII - Doha, Qatar, 20 April 2012).

Given the role of hotel & tourism sector in 'Inclusive growth', the Indian government has taken varied initiatives for stimulating domestic and international investments in this sector. Considering this, the present paper aims to highlight the issues that deserve attention of policy makers for achieving inclusive growth through tourism sector. Given the growing significance of FDI, hotel sector and inclusive growth in international commerce, a number of authors addressed varied related issues for Indian economy during last two decades such as Raj et al (2005); Subbarao (2008); Baken and Bhagavatula (2009); Sahoo and Sahoo (2011); Prasad and Sundari (January 2012); Batabyal and Ghosh (2012); and Rajeswari and Akilandeswari (2015).

The Hotel industry has been recognized as one of the major engines for inclusive growth and employment. Currently, there is a growing agreement on the positive contribution of tourism in inclusive and sustainable growth and development of a country. All United Nations Conferences tend to agree that tourism stimulates the local economy in destination countries through supply-chain linkages with other economic sectors, particularly in agriculture and manufacturing. It promotes entrepreneurship and the growth of SMEs. Tourism "is like an iceberg; the visible tip is hotel, travel and tourist service; below the surface, there are multiple opportunities for households, micro, and small enterprises (Wong et al., 2009). The importance of the industry as a growth engine has been underlined in the declaration of the G-20 Leaders of Nations Summit held in Mexico in June 2012 which reads: “We recognize the role of hotel industry as a vehicle for job creation, economic growth and development, and, while recognizing the sovereign rights of States to control the entry of foreign nationals, we will work towards developing travel facilitation initiatives in support of job creation, quality work, poverty reduction and global growth.”

The industry has 'wider impacts' on economy due to its direct, indirect and induced contribution (WTTC). It has a direct impact on GDP due to residents and non-residents spending through business and leisure travel activities as well as government spending on those travel &tourism services that has directly linkage to visitors such as cultural (e.g. museums) or recreational (e.g. national parks). Moreover, it helps in employment generation as it is an attractive investment segment for both local and foreign investors and government. It contributes to GDP and jobs creation also in various indirect ways, such as domestic purchases of goods and services made by sectors dealing directly with tourists and by members of various industries. It contributes substantially to reducing poverty and empowering women, youth and migrant workers with new employment opportunities.

The hotel industry is generally considered as a private sector driven activity (UNCTAD XIII, 2012). However, government intervention and supportive actions are necessary to exploit the full potential of the tourism sector and to achieve inclusive and sustainable growth and development. The Indian government has realised the country’s potential in the tourism industry and has taken several steps to make India a global tourism hub. Some of the major initiatives taken by the Government of India to give a boost to the tourism and hospitality sector of India are as follows:

- The Union Cabinet has approved the signing of Memorandum of Understanding between the Ministry of Tourism of India and the Ministry of Trade Industry and Tourism of Colombia in order to boost cooperation in the field of tourism between the two countries.

- The Central Government has given its approval for signing of a Memorandum of Understanding (MoU) between India and Cambodia for cooperation in the field of tourism with a view to promote bilateral tourism between the two countries.
- Ministry of Tourism has sanctioned Rs 844.96 crore (US$ 142 million) to States and Union Territories for developing tourism destinations and circuits during FY 2014-15, which includes projects relating to Product/Infrastructure Development for Destinations and Circuits (PIDDC), Human Resource Development (HRD), Fairs and Festivals & Rural Tourism.
- The Heritage City Development and Augmentation Yojana (HRIDAY) action plans for eight mission-cities including Varanasi, Mathura, Ajmer, Dwaraka, Badami, Vellankini, Warangal and Amaravati have been approved by HRIDAY National Empowered Committee for a total cost of Rs 431 crore (US$ 64.7 million).
- The Government of India plans to cover 150 countries under e-visa scheme by the end of the year besides opening an airport in the NCR region in order to ease the pressure on Delhi airport.
- Under 'Project Mausam' the Government of India has proposed to establish cross cultural linkages and to revive historic maritime cultural and economic ties with 39 Indian Ocean countries.
- Visa on arrival facilities extended to 150 countries in a phased manner from 43 countries currently in the budget 2015-16.
- A New Tourism Policy approved in 2002 in order to replace the first tourism policy of 1982 considering tourism sector as an engine of growth.
- Service Export Promotion Council was set up by Department of Commerce for 'Hotel and Tourism' related services, for export promotion.
- Export House status provided to different travel and tourism organizations. Medical Tourism was included in the purview of the Marketing Development Assistance (MDA) scheme.
- Initiatives were taken to promote rural tourism under the United Nations Development Programme (UNDP).
- An amount of Rs.3112.71 crore was sanctioned under 11th five-year plan to complete 991 tourism infrastructure projects and national highways up gradation with the aim of facilitating travel and tourism sector.
- The Government allowed 100 percent foreign investment under the automatic route to upgrade the hospitality and tourism related industry. A 'Mega Projects' scheme has been initiated for tourism infrastructure development to build up nationally and internationally important tourism destinations and circuits.
- An Inter-Ministerial Coordination Committee for the Tourism Sector has been set up in 2011 to create synergy and convergence between various sectors related with tourism development.
- A "Clean India" Campaign has been launched to make tourist destinations attractive by promoting cleanliness. "Incredible India" and "Atithi Devo Bhavah" Campaign launched in to promote tourism.
- Online campaigns and interactive / social media as well as other modern and innovative technology spheres (e.g. i-pad) are being used in tourism marketing.
- Financial assistance is being extended to States/UTs for activities such as creation of websites/ online portals, online marketing of tourism products, etc.
- The "Incredible India" mobile app was launched by the Ministry of Tourism to facilitate tourists while seeking information regarding tourism services.
- The websites of MOT (www.tourism.gov.in) and Incredible India campaign (http://incredibleindia.org) were revamped and are constantly being updated.

Due to the above government initiatives for development of hotel and tourism sector, the sector has become fastest growing economic activity in India. Due to the growing number of tourist arrivals for recreational, leisure or business travel in the country, the hotel industry is contributing more to GDP of India than the automotive manufacturing industry and generating more jobs than the chemical manufacturing, automotive manufacturing, communications and mining sectors when these are combined (WTTC). India is generating 19 USD billion from visitor exports which is nearly three times the world average. The growth of visitor export is higher i.e. 4.8% in 2014 than the world average i.e. 2.9% for the same period. This trend is anticipated to continue in next ten years as the growth rate of visitor exports to total exports is expected to be 4.3% as compare to 4.2% of world average. Contribution in GDP is an indicator of performance of the hotel industry but contribution to employment is a very important determinant of inclusiveness of this sector. The travel and tourism sector contribution in jobs creation and GDP in India is also higher than world average. The contribution of hospitality sector in GDP and employment generation is also expected to increase steadily with a growth rate of 7% and 1.9% during next ten years.

Foreign Direct Investment (FDI) in tourism would help developing countries to mitigate the effect of the adverse development gap between developed and developing countries (UNCTAD, 2007). The UNCTAD (2007) documents stated that FDI played a major role in the tourism take-off in 1970s Tunisia, inducing the country's economic growth. Hence, most governments in developing countries often place the highest priority on attracting FDI, by experimenting with a variety of policies (Zhang and Chong, 1999). On the other hand, the growth of tourist arrivals induces an increasing demand for goods and services such as food, accommodation and transportation. Thus, governments often prefer to attract further FDI to expand domestic products and infrastructure to cover the increasing tourist demand for goods and services.

However, there arises a question as to whether FDI strongly contributes to tourism growth or, alternatively, if tourism growth actually causes the further attracting of FDI as an alternative? Despite the belief in tourism-related FDI development, and relatively speaking, not many studies have rigorously investigated the causal and long-run relationships between FDI and tourism growth. Moreover, most studies have indeed been dealing with samples of developed countries and despite the increasing importance of tourism for developing economies, even fewer studies (possibly none at all) have been found to rigorously assess the relationship. Likewise, papers that analyse the role of FDI on tourism growth focus exclusively on a limited cross section and panel data for developing country cases are scarce.

Conclusion

The hotel and tourism industries development effects on the economy are considerable. As a multidisciplinary activity involving several industries and drawing upon a variety of skills, benefits are spread over a wider section of society compared to those from other sectors of the economy (Telce and Schroenn, 2006). Pioneering studies have highlighted its potential effects in promoting growth, creating jobs and generating revenue for the government (Lea, 1988; Sinclair, 1998). This economic relationship is known as the 'tourism-led growth hypothesis'. According to this hypothesis, international tourism is considered as a significant strategic factor for economic growth (Sinclair and Stabler, 2002; Samimi et al., 2011). Also, international tourism would contribute to an income increase in two additional ways at least: first, enhancing efficiency through increased competition among firms and other international tourist destinations

(Krueger, 1980); second, facilitating the exploitation of economies of scale in local firms (Helpman and Krugman, 1985).

However, the hotel industry is an activity that requires capital, infrastructure, knowledge and access to global marketing and distribution chains. Therefore, the availability of financial sources is critically important for achieving further tourism development and economic growth. As such, FDI would play a significant role in developing the hotel industry in India and other developing countries, by providing the required capital and infrastructures such as international airports, highways and modern technologies which are the keystones to tourism development. Hence, most governments in developing countries often place the highest priority on attracting FDI for further development of the hotel industry and economic growth (Zhang and Chong, 1999; Andergassen and Candela, 2009). Therefore, there is a causal relationship between FDI and industry vis-à-vis country development, with FDI improving the quantum and quality of service, then the international tourist arrival numbers increase (Selvanathan et al., 2012). Foreign investors have brought their established or potential tourist sources into developing countries' markets expecting benefits. Consequently, they also contributed to increasing sources of inward tourism and promoting development of the local economy.

It is the contention of the researcher, that FDI can undoubtedly be used as an important tool for expanding the hotel industry in developing countries, in particular, those that are newly emerging in the industry (Endo, 2006; Subbarao, 2008). FDI is considered an effective channel for transferring the trade, knowledge and technologies leading to economic growth. Thus, governments prefer to attract further FDI to expand domestic products.

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