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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, KurukshetraUniversity, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

FOREIGN DIRECT INVESTMENT (FDI): AN OBSERVATION ABOUT TOURISM INDUSTRY IN INDIA

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ABSTRACT

Many countries make changes to their economic policies in order to attract foreign investors and India is no exception. Foreign direct investment (FDI) is defined as foreign investors stirring their assets into another country where they have control over the management of assets and profits (Graham & Spaulding, 2005). It is commonly observed that the more FDI a country acquires, the more local economic growth and transformation can develop. Foreign companies often bring to the country large sum of funds and new technologies, as well as advanced management skills which allow local industries and regions to gain a lot of experience (OECD, 2003). India's liberalization and deregulation policies have attracted a huge amount of foreign direct investment (FDI) into India. Globalization, liberalization and privatization aimed at making the Indian economy a faster growing economic, globally competitive. The new world due to junction of communication and technology has created a virtual borderless world. Every country has to pay heavy opportunity cost if left isolated. Foreign Direct Investment is a central element of an open and successful global economic system which helps in the development of a country in various sectors including tourism industry. The tourism industry is diverse in nature. Tourism industry is one of the largest and fastest growing sectors in world. Tourism industry plays an important role in the economy of India. This paper tries to determine the factors affecting FDI in Tourism sector, its flow in Indian tourism industry, examines the benefits of FDI in the growth of Tourism sector.

KEYWORDS
Foreign Direct Investment (FDI), benefits, tourism.

INTRODUCTION
The early nineties was a stage when the Indian economy faced a brutal balance of payment crisis. Exports began to face serious difficulties. The crippling exterior debts were putting pressure on the economy. In case of all these situations there was a serious hazard of the economy defaulting due to external payments liability. On the base of such adverse situations the policy makers determined to adopt a more moderate and global approach thereby, opening its door to FDI inflows in order to restore the confidence of foreign investors.FDI provides a situation where in both the host and the home nations derive some benefit. The home countries want to obtain the benefit of the huge markets opened by industrial growth. Whereas the host countries get to attain resources ranging from technological financial, capital and entrepreneurship know-how and management skills which aid it in supplementing its domestic savings and foreign exchange.

Most of the developing countries today are looking to tourism as a potentially promising opportunity for trade and industry and human development. This observation is comparatively new for some of them, and reflects the speedy increase in tourism arrivals, numbers and revenues for many developing countries in recent years. Before some decades, tourism has been given minor priority than agriculture or manufacturing since it has not been considered a major or appropriate source of development. Increasingly, however, the sector is being valued as a source of earning export revenues, generating jobs, promoting economic diversification and a more services-oriented economy, helping to revitalize declining urban areas and cultural activities, and opening up far-off rural regions. Foreign direct investment (FDI) is one of the vehicles through which developing countries can develop their tourism sector.

Tourism is one of the third largest revenue generators of foreign exchange for India and also employs one of the highest numbers of manpower. A positive point is India has been ranked as the second most favoured FDI destination, just behind China in developing country among neighbor countries. Policy makers in many countries including India believe that FDI will escort their country's overall development, including the tourism industry. For a developing nation like India, FDI could play an important role in its economic development in common and to the tourism sector in particular by improving India's infrastructure such as international airports, highways, hotels and modern technologies which are the keystones to tourism development.

The National Tourism Policy was introduced in the year 2002, with the definite aim of promoting the tourism industry as it was believed that increased tourism would lead to growth and overall development through employment generation and poverty reduction. New emerging areas like rural tourism, heritage tourism, eco-tourism, health tourism, adventure tourism and wildlife tourism have been given priority.

The Indian government is concern to stimulate domestic and international investments in tourism sector. In this view 100% FDI under the automatic route is now permitted in all construction development projects including hotels and resorts, recreational facilities and city and regional level infrastructure. Apart from this 100% FDI is now permitted in all airport development projects subjects to restrictions that FDI for up gradation of exiting airport requires FIPB approval beyond 74%. In case of tax concession Indian government facilitate a five year tax holiday has been extended to companies that set up hotels resorts and convention centers at specified destinations, subject to compliance with the prescribed conditions.

OBJECTIVES OF THE STUDY
- To understand the need for FDI in Indian tourism.
- To exhibit the sector-wise & year-wise analysis of FDI's in India.

- To study the determinants of FDI flow in tourism sector in India.
- To examine the benefits of FDI in the growth of Tourism sector.

RESEARCH METHODOLOGY

This research is a descriptive study in nature. The secondary data was collected from various journals, magazines, and websites particularly from the Department of Industrial Policy & Promotion, Ministry of Commerce and Industry etc. The study is based on the time period from 2000-2012. Graphs and tables have also been used where ever required to depict statistical data of FDI during the study period. We used secondary data:

- ✓ Government websites
- ✓ Journal relates with FDI and tourism
- ✓ Magazines and books related to FDI inflow in different sectors.
- ✓ Publications and reports related to various departments and organizations.
- ✓ Historical documents and other sources of published information.

LITERATURE REVIEW

Krugman and Obstfeld's (2007) study defines, foreign direct investment as international capital flow from a firm in one country, which creates a subsidiary of the parent company in other country or which allows the firm to obtain a controlling interest in a foreign firm. FDI is distinguished from other forms of international capital flows in that it goes beyond a transfer of resources; also it involves the acquisition of control of assets in other country.

World Trade Organization's study, defines, foreign direct investment as, when an investor based in one country (the home country) acquires an asset in a country (the host country) with an intend to manage the assets. However, according to the Organization for Economic Cooperation and Development (OECD) definition in 1996, mean that, foreign direct investment as reflecting the objective of obtaining a lasting interest by a resident entity in one economy (direct investor) in an entity resident in an economy other than that of the investor (direct investment enterprise). Foreign Direct Investment is the process of investing in other country's economy for long run with the purpose of acquiring the assets and managing it as well as to transfer resources such as technology, human resources, skills etc...

According to A.T. Kearney's Annual Global Retail Development Index (GRDI) for the year 2012, India has been placed at fifth rank (after Brazil, Chile, China and Uruguay) on the basis of retail investment attractiveness. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. Being encouraged by India's growing retail boom many multinational companies also started to enter India's retail market. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $660 billion by 2015. FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers, and suppliers (farmers). Opposition to liberalizing FDI in this sector raises concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development.

FDI IN INDIA

Tourism is an activity where capital, infrastructure, knowledge and access to global marketing and distribution chains are critical. FDI is often considered one of the most effective engines for harnessing these elements. Hence most developing countries place a high priority – often the highest priority – on attracting such investment, some by experimenting with a variety of policies. However, the role of FDI in tourism is more nuanced than it is in some other sectors of the economy, and most countries approach it with a combination of hope and fear. It is valued because of what it can provide, but it is also feared for its impact upon economic and cultural independence, and its potential damage to the communities and the environment.

The (table-1) indicates that Mauritius is on top investor in India with 38% share in FDI, it is followed by Singapore, U. K., Japan, and U.S.A respectively. Thus there is a great scope to motivate various developed countries to invest in India

TABLE 1 - FDI INFLOW IN INDIA FROM VARIOUS COUNTRIES

Rank	Country	2010-11 (April - March)	2011-12 (April - March)	2012-13 (April – Jan.)	Cumulative Inflows (April 2000 - Jan. 13)	%age to total Inflows (in terms of US $)
1	MAURITIUS	31,855 (6,987)	46,710 (9,942)	44,508 (8,175)	333,979 (72,343)	38 %
2	SINGAPORE	7,730 (1,705)	24,712 (5,257)	9,968 (1,823)	87,556 (18,976)	10 %
3	U.K.	12,235 (2,711)	36,428 (7,874)	5,625 (1,048)	80,286 (17,517)	9 %
4	JAPAN	7,063 (1,562)	14,089 (2,972)	9,308 (1,693)	67,159 (14,006)	7 %
5	U.S.A.	5,353 (1,170)	5,347 (1,115)	2,726 (500)	50,615 (11,064)	6 %
6	NETHERLAND	5,501 (1,213)	6,698 (1,409)	8,219 (1,517)	40,544 (8,626)	5 %
7	CYPRUS	4,171 (913)	7,722 (1,587)	2,365 (435)	32,035 (6,835)	4 %
8	GERMANY	908 (200)	7,452 (1,622)	3,204 (587)	24,032 (5,208)	3 %
9	FRANCE	3,349 (734)	3,110 (663)	3,159 (585)	16,536 (3,512)	2 %
10	U.A.E.	1,569 (341)	1,728 (353)	940 (171)	11,260 (2,414)	1 %
TOTAL FDI INFLOWS FROM ALL COUNTRIES *		97,320 (21,383)	165,146 (35,121)	103,956 (19,103)	878,962 (190,083)	

***Includes inflows under NRI Schemes of RBI.**

Note:

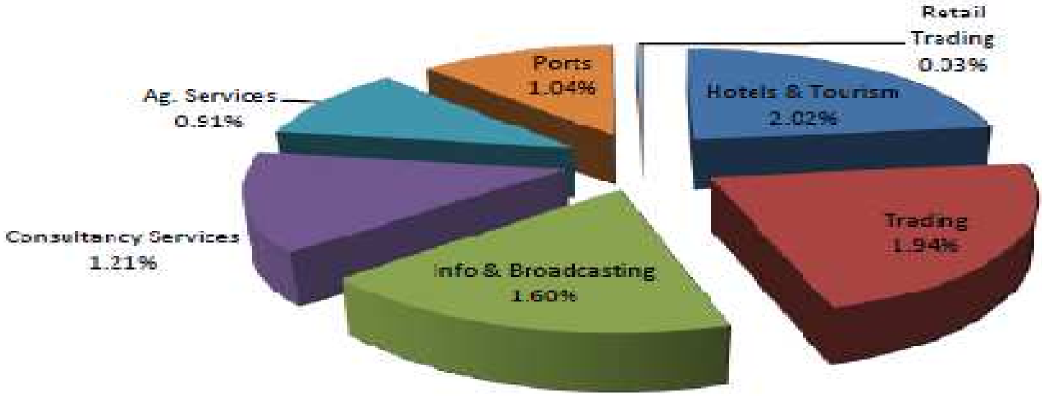
(i) Cumulative country-wise FDI equity inflows (from April, 2000 to January, 2013) are at – Annex-A.

(ii) %age worked out in US$ terms & FDI inflows received through FIPB/SIA+ RBI Automatic Route + acquisition of existing shares only.

FDI GROWTH IN VARIOUS SERVICE SECTORS

The share of services in FDI inflows increases to 48.4% if the shares of some other services like Hotels, tourism, trading, information and broadcasting, consultancy services, agricultural services, ports, retail trading etc are included then the total share of cumulative FDI inflows to the service sector would be 58.4%. It can be better understood by the following figure:

FIGURE-1: SHARE OF EACH SUBSECTOR IN GROWTH OF FDI



(Source: Compiled from Economic Survey of India 2011-12)

(Figure 1) shows the share of various sub sectors in the growth of FDI in India where Hotel and Tourism prove to be biggest gainer owing to its multifaceted variables. Trading sector come a close second given by the ever increasing demand, followed by Information and broadcasting, consultancy services, ports and agricultural services in the end.

TABLE 2 - SERVICES ATTRACTING HIGHEST FDI EQUITY INFLOW

Sector	2009-10(Rs crores)	2010-11(Rs crores)	2011-12(Rs crores)
Service sector (Financial and non-Financial)	19945	15053	24656
Telecommunication	12270	7542	9012
Computer software and hardware	4127	3551	3804
Construction	13459	4979	15236

(Source: Compiled from Department of Policy & Promotion Data)

The above table shows that the prominence of service sector which has grown exponentially over the other sectors in the year 2011-12 followed by minor lag in the previous year. Telecommunication and computer software and hardware too have had similar run over these years. Lastly construction sector has proved to most unpredictable of all where it saw the tremendous downfall in the year 2010-11 followed by quantum jump as no other in size in the preceding year.

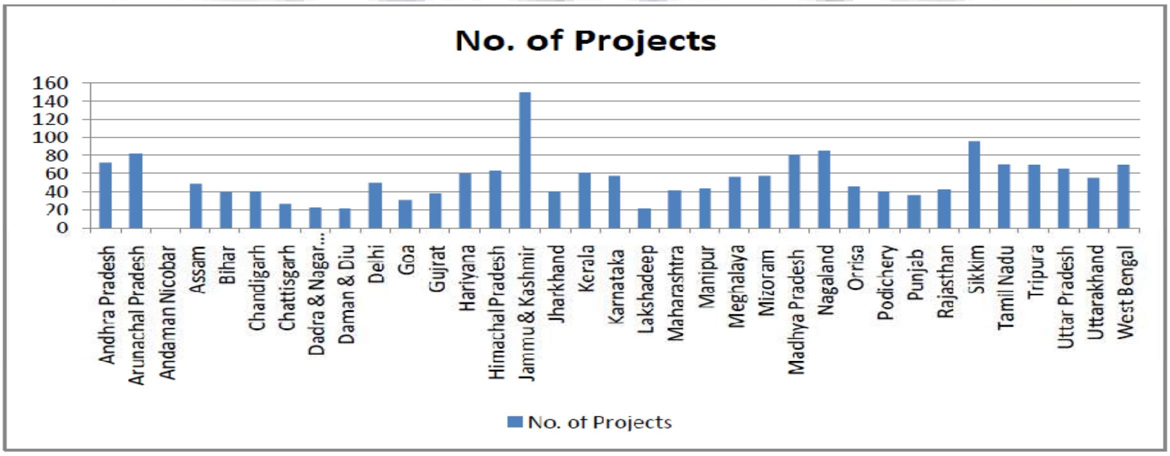
FDI IN TOURISM

Private sector drives the tourism industry in India, and the public sector contributes significantly through infrastructures provision, directly or through PPP i.e. Public Private Partnership in its projects. The Hotel and Tourism industry has been given high priority and up to 100% of FDI (Foreign Direct Investment). 1.97% of the total FDI inflows into India are due to the total investment of 15,867.72 crores in hospitality sector, from April 2000 to June 2012. India is second after China as a preferred investment spot, according to UNCTAD (United Nations Conference on Trade & Development).

With a view to stimulate domestic and international investments in this sector, the government has permitted 100 percent FDI in the automatic route –allowing full FDI into all construction development projects including construction of hotels and resorts, recreational facilities, and city and regional level infrastructure. 100 percent FDI is now allowed in all airport expansion projects subject to the condition that FDI for up gradation of existing airports requires Foreign Investment Promotion Board (FIPB) approval beyond 74 percent. A five year tax holiday has been given to organizations that set up hotels, resorts and convention centers at specific destinations, subject to fulfillment with the agreed conditions. Some international hospitality majors such as Hilton, Accor, Marriott International, Berggruen Hotels, Cabana Hotels, Premier Travel Inn (PTI) and InterContinental Hotels group have already announced major venture plans in India in recent years.

For the development and promotion of the infrastructure and tourism all across India, Government of India has sanctioned a total of 1,226 projects in the 11th Five year plan, which costs around INR 40, 90.31 crores. Jammu and Kashmir had the maximum numbers of projects, which were followed by Sikkim, Nagaland, Arunachal Pradesh and Madhya Pradesh. The projects are under the financial assistance of the Ministry of Tourism.

FIGURE 2



Source: ministry of tourism

Hotel and Tourism sector is declared as high priority sector and Foreign Direct Investment (FDI) upto 100%, under the automatic route is permitted in 'Hotels & Tourism Sector', subject to applicable laws/regulations, security and other conditionalties. 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:

TABLE 3 - FDI EQUITY FLOWS

S.No.	Year (Apr-Mar)	Hotel & Tourism Projects	FDI (` in crore
1.	2008-09	489	2,098.23
2	2009-10	552	3566.32
3	2010-11	403	1,405.15
4	2011-12 (Apr-Jan)	427	4,041.28
Grand total		**1901**	**11,110,98**

(Press information bureau, Government of India)

TABLE 4 - INDIAN HOTEL INDUSTRY: ANNUAL GROWTH RATE (%)

Year	Segment	Annual growth rate (%)
2005-06	Hotel and restaurant	17.5
2006-07	Hotel and restaurant	14.4
2007-08	Hotel and restaurant	13.1
2008-09	Hotel and restaurant	-3.4
2009-10	Hotel and restaurant	2.2

Source: Economic Survey 2010-11

The above table shows that the annual growth rate (%) is highest in 2005-06 with 17.5 which is followed by 2006-07 and 2007-08 with 14.4 and 13.1 respectively. In 2008-09 hotel industry growth rate was in negative which was -3.4%.

REASONS FOR LOW FOREIGN INVESTMENT IN TOURISM IN INDIA

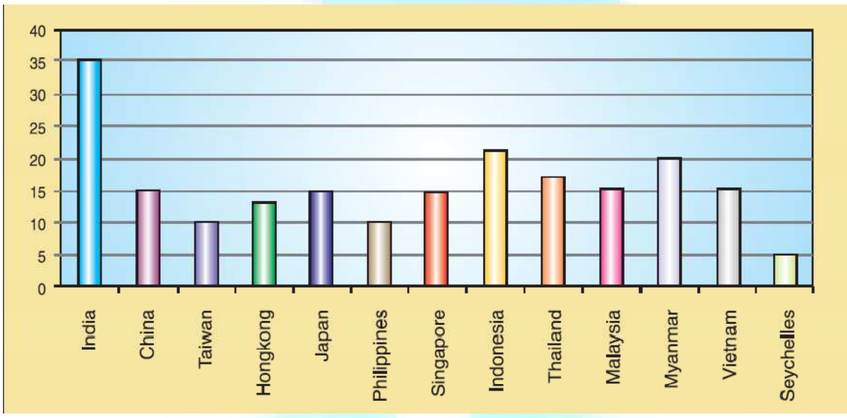
MULTITUDE OF TAXES

Indian tax structure is highest on tourism projects in the Asia Pacific region. Massive amount of central and state taxes is the basic problem plaguing the tourism and hospitality industry. Expenditure Tax of 10% is charged in hotels 'wherein room charges for any unit of residential accommodation are Rs.3000 or more per day' while, simultaneously, States levy Luxury Tax ranging from 5% to 25% on the hotel tariff.

HIGH TAXES

One of the original problems neglecting the Indian tourism sector is a massive amount of Central and State level taxes, which lead to an increased cost to the tourists in India than other world destinations. The table below indicates a comparison of the corporate tax level in India, which affects the tourism and hospitality sector. It indicates India is on Poor competitive position in comparison with our neighbor country which is a negative sign for tourism sector.

FIGURE- 3



IMPEDIMENT IN FDI APPROVALS & GOVT. POLICIES

Huge delay in Foreign Direct Investment approvals in Hotel & Tourism sector due to delay in approvals and lack of guidelines and clearance in the tourism policy. Besides it there are various political and other reasons for this delay.

UPPERMOST IMPORT DUTY ON IMPORTED LIQUOR USED IN HOTELS

Under the WTO Negotiations for Market Access under the Agreement of Agriculture (AoA), India had bound its tariffs at 100% for primary products, 150% for processed products (this is the relevant category for liquor) and 300% for edible oils, except for certain items (comprising about 119 tariff lines), which were historically bound at a lower level in the earlier negotiations.

SERVICE TAX ON TOUR OPERATORS AND TRAVEL AGENTS

The services provided by a tour operator typically includes a wide range of services covering transportation, boarding and lodging arrangements, local sight-seeing and guide services, etc. which are procured through sub-agencies. Even though 60% abatement is provided, taxation of the gross service amount leads to double taxation and increases the burden for the tourists.

SOME PERCEPTION ON FDI IN TOURISM

For example, a background note summarised the broad tone of the literature as follows: "many analysts argue that tourism, driven by foreign private sector interests, is not an activity suited to poverty elimination. They argue that economic benefits are not maximised because of the high level of foreign ownership, high leakages and the relative absence of local economic linkages" (UNCTAD 2001). Similarly, there is the sense that tourism in developing countries is characterised by "high dependence on foreign capital and foreign management…" (UNCTAD).

Much of the critical literature was written in the 1970s and 1980s, although recent writers are still rather negative in their assessment of the role of MNCs. For example, Brohman (1996) states that the problems of dependency, internal disarticulation and foreign exchange leakages usually associated with underdeveloped economies dominated by foreign-owned export enclaves, and he also argues that foreign domination and external dependency often seriously reduce tourism's potential for generating broadly based growth, as well as the net financial advantages that the industry brings to developing countries. Irrespective of the veracity of such views, developing countries need to devote attention to strengthening the participation of the domestic economy in the tourism industry, and in part this includes ensuring net positive linkages with MNCs and FDI.

REASONS TO INVEST IN INDIAN TOURISM

- 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 travelers coming into India. In the last few years India has seen a large inflow of business travelers in the country courtesy to relaxation of the government‟s stand on FDI for most of the sectors in the country.

In India, the global financial crisis badly impacted the Indian tourism and hotel sector that resulted in decline in the number of foreign tourists, decline of Foreign Direct Investment Inflows and affected the gross domestic product of India.

CONCLUSION

One of the most notable features of economic globalization has been the increased importance of foreign direct investment around the World. Some view is 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. More than ever, countries at all levels of development seek to leverage FDI for development. We in India see FDI as a developmental tool in all sectors and tourism has no exceptions.

FDI in the hotel sector towards developing countries has increased substantially in the past decades, reflecting the rising importance of services in total international investments. But despite its substantial international growth, the major hotel chains remain relatively modest in size and their degree of internationalization is also low compared to other industry sectors (Endo, 2006). For example, none of the major hotel multinationals is included in the top 100 of non-financial MNEs, and most employment in the hotel sector is still created at domestically-owned accommodations: foreign-owned firms account for only 10 per cent of worldwide employment in the hotel and restaurants sector in the 1990s – a low proportion compared to most other industry sectors (UNCTAD, 2007).

However, the limited proportion of hotel FDI is slightly misleading since hotels primarily internationalize through non-equity modes, particularly in developing countries (Endo, 2006). The most popular non-equity mode is the management service agreement, under which the business is controlled and managed by a foreign firm, who is not the owner. The alternative non-equity mode is the franchising agreement, which awards a local firm the right to do business in a prescribed manner under an existing brand name. This is a less common mode in least developed countries, because of the limited skills and experiences available in these countries (UNCTAD, 2007).

As per objectives of this study, first is to determine the factors affecting FDI in India. (a) Some of the factors observed are market, cost, political and legal environment, socio cultural, geographical location plays vital role in FDI inflow. Lack of infrastructure is a major reason for poor performance in the investment under tourism sector. (b) Availability of labor and raw materials become another important fctor to attract FDI in tourism sector but large investors which form the majority of world investment normally avoid investment in developing countries where markets are typically small and operation cost is very heavy. The non-inclusive FDI policy is found to be another reason for failing to attract FDI in the country. (c) The unique culture and preserved social conditions are important factors to develop a new tourist destination. To attract FDI, a cautious approach like capitalizing on external economic conditions, economic reforms, and private sector development is necessary. (d) Despite having land locked location and market constraints, India has made success in attracting foreign investments in tourism sector due to its favorable climatic conditions, terrain and topography.

India is said to be one of the most potential markets in the world for tourism. It is a multi billion industry in India. Tourism can also be stated as the most vibrant activity. India has been always known for its historical, cultural dimensions. Tourism today in India is highlighted for its immense business opportunities. Tourism industry has a lucrative linkage, with transport and Hotel industry. Indian tourism needs to be measured in terms of socio economic magnitudes. The entire taxation system in hospitalty,as such need to be more streamlined for it would encourage more private players to invest here in India. Lesser procedural heckles coupled with incentives like tax holiday would be great deal in the solution. Moreover, better marketing approaches should be applied in order to cater to the ever changing scenario in the market.

Most countries need to approach it with caution. It is valued because of what it can provide, but it is also feared for its impact upon economic and cultural independence, and its potential damage to the communities and the environment. In some countries, efforts to attract FDI in tourism sit uneasily alongside complaints that there is already too much FDI, or that foreign investors dominate the sector and do not pass the benefits of tourism on to the domestic economy (UNCTAD)

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