

A passage to India: Tourism boosted by FDI

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Economic liberalization has given new impetus to the hospitality industry with the Government of India permitting 100% foreign direct investment (FDI) in hotels and the tourism sector under the automatic route.

FDI and technical collaboration form a major platform of economic reform. With a view to attracting investment in this sector, the hotel and tourism industry has been declared a "high priority industry" for foreign investment. The sector has thus been granted various incentives such as income tax exemptions and reduced import duties.

Tourism development

A national strategy for tourism development was proposed in 1996, advocating the strengthening of human resource development, the formation of an advisory board for the tourism industry and trade, as well as the integration of tourist destination development with private sector involvement.

Tourism was granted "export house" status in 1998, entitling hotels, travel agents, tour operators and tourist transport operators to various incentives.

The tourism sector in India has received encouragement from the government and this has contributed to the growth of the sector in the last few years. Driven by a surge in business traveller arrivals and a soaring interest in the country, India has emerged as a leading tourist destination.

Investments in this industry are mainly governed by Press Note 4 of 2001 and Press Note 1 of 1995. The term "hotels" includes restaurants, beach resorts, and other tourist complexes providing accommodation and/or food facilities to tourists.

The tourism industry encompasses travel agencies, tour-operating agencies, facilities for cultural, adventure and

wildlife experiences, surface, air and water transport services for visitors, leisure, entertainment, amusement, sports, and health units, along with convention/seminar units and organizations.

Technical collaborations

The Government of India in Press Note 4 of 2001 underlined its policy for 100% FDI in the hotel industry and laid down the norms for automatic approval in Press Note 1 of 1995.

The government also prescribed separate norms for automatic approval by the Reserve Bank of India for foreign technical collaborations in relation to the hotel industry through Press Note 18 of 1991. However, these norms were subsequently revised through Press Note No 1 of 1995. Automatic approval for foreign technology agreements in the hotel sector may now be granted if three conditions are satisfied.

Firstly, up to 3% of the capital cost of the project must be allocated to pay for technical and consultancy services including fees for architectural design.

Secondly, up to 3% of the net turnover must go towards franchising, marketing and publicity support initiatives. Finally, up to 10% of gross operating profit should contribute to management fees.

It must be emphasized that these parameters are applicable only for obtaining automatic approval from the Reserve Bank of India for foreign technical collaborations in the hotel sector.

Investing in new sectors

Since there are vast opportunities for further growth in this sector, several global hotel chains have announced major investment and expansion plans in India.

International hotel asset management companies are also targeting India while US-based companies have

already finalized their plans to enter the country.

With such bright prospects, the Indian government itself is considering various proposals to further relax FDI policies to allow foreign investment in hotel and tourism projects built as parts of malls and shopping complexes.

Although 100% FDI is permitted within the hotel and tourism sector, investors interested in new projects, such as hotels located in malls or shopping complexes, must adhere to a string of conditions where foreign investment is concerned.

These conditions include minimum capitalization, minimum area development and a lock-in period for original investment, which may not be as attractive to overseas investors.

These complex rules pertaining to FDI will not be enforced if at least 50% of the total built-up area provides hotel and tourism-related activities such as restaurants, beach resorts and other tourist complexes.

The influx of foreign players has led to major price wars in the industry as a result of which several foreign chains have entered the Indian market.

Competition has forced Indian hotel groups to improve their standards to bring them on par with international requirements as provided by foreign investors.

Allowing 100% FDI is a promising start to attracting investors globally to pool their resources into the thriving hotel and tourism sector. India's tourism and hospitality industry will, in the near future, emerge as one of the key sectors driving the Indian economy.

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