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An Analysis of Indian Luxury Hotels through Investment Patterns (Fdi) with Special Reference to Pre-Pandemic Era in Mumbai

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Abstract:

Investing patterns can be seen across a range of financial assets. An investing pattern is, in fact, the selection of various investment opportunities while giving important regard to risk and return. Foreign businesses have historically contributed to India's economy. It now ranks among the greatest international investment reservoirs in the world. Rich natural resources, such as minerals, forests, extensive agricultural lands, and a large labour pool, are abundant in the nation. In terms of the expansion of the hospitality industry, it is also one of the nations with the quickest growth rates. In this article, an analysis of Indian luxury hotels through investment patterns (FDI) with special reference to pre-pandemic era in Mumbai has been discussed.

Keywords: Luxury, Hotels, Foreign, Investment, Mumbai

Introduction:

India started an industrialization strategy of import substitution soon after gaining its independence, with a focus on strengthening domestic industry capacity. India's growing appeal to international businesses is due to its comparatively positive prospects at a time when the global economy was struggling. Foreign investors have been drawn to the country for a number of reasons, such as political stability in a democratic polity, an economy with steady growth and low inflation, a large pool of trained labour, a strong entrepreneurial class, a social system and physical infrastructure that are relatively well-developed, a vibrant financial system with a rapidly expanding capital market, and a diverse industrial base. It has been stressed that foreign capital must supplement Indian capital in order for the country to develop rapidly. However, in many cases, FDI is also the best way to secure capital equipment and scientific, technical, and industrial knowledge.

Research Methodology:

The general plan or method that researchers employ to carry out their research is known as research methodology. It includes the theoretical foundations of the study, the study's design, the ways in which data is collected, the methodologies used to analyse that data, and the overall framework used to carry out the study. Research methodology provides a framework for how research is planned, carried out, and analysed. It also guides researchers in choosing the methods that are best suited for their research.

Study Area: Mumbai

Methodology:

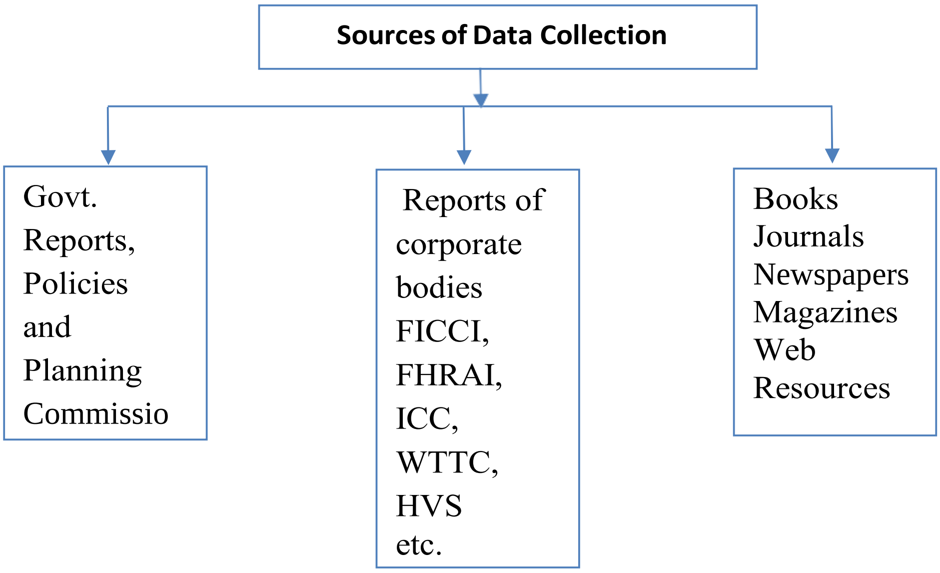
Operational Model:

It has been observed that a huge amount of research has been conducted in the study area of FDI in India by different researchers. However, their study was limited to certain specific sectors, or Services sector at large. These studies have also highlighted the importance of FDI as investment trend over other investment trendsin order to the importance that FDI holds in the economic development of the country alongside the technical, managerial and R&D activities related to development of various sectors of the economy. It has been highlighted that India isattracting a huge amount of FDI inflows after the economic reforms and changes inFDI policies over the time since the introduction of FDI in Indian Economy in 1990s. The studies were conducted previously were either focused on FDI in other segments of the economy or they have taken service industry as a whole. These studies were focused on foreign exchange earnings, GDP, Per Capita income. Very negligible amount of research was conducted in the area of investment trends Hospitality sector in India. In order to fulfil the obligations towards the hospitality industry, the present study was conceptualized and which was take a stock of all dimensions related to investments with special reference to the FDI in the hospitality sector.

Open Model:

When a business adopts an open system, it can send and receive information from its surroundings. A closed system is one in which all interactions happen only within it. As a result, closed systems are cut off from the outside world and can only communicate with other closed systems. Closed systems inside an organisation prevent employees from receiving input from other departments or sharing information about their actions with others. Because closed-model organisations operated in a stable environment, they did not experience frequent changes and issues. Our research therefore fits into the Open Model system.

Method of Data Collection:



Secondary Model (Data Sources):

As the study was mainly based on secondary data only, while reviewing the literature the main focus was on identifying the objectives and key findings of the earlier studies in the area. The variable in the present study was carefully selected after the proper patience evaluation of this secondary data. The secondary sources have been included in the present study are divided into three categories (i.e., Method of Data Collection) one was reports and policies of Government organizations, second was the reports and surveys of Private organizations and the third was the books, journals, newspapers, magazines and web links.

Secondary sources were books, journals, newspapers, magazines, web resources etc. As per the requirement of the study the data was collected for last ten years. While reviewing this literature the main focus was on identifying the objectives and key findings of the earlier studies in the area.

Analysis And Discussion:

FDI Patterns:

Over time, the Indian government has envisioned many FDI features in terms of their advantages for the growth of the economy and subsequent advantages. This chapter focuses on the trends in foreign direct investment (FDI) in India since the country attained independence. Before 1990 and after 1990 are the two time zones used to designate the entire period.

FDI patterns in India before 1990s:

Prior to the 1990s, the Indian economy may be roughly divided into three significant periods, which are covered below:

1947-1967:

Due to political dependence, the Government of India's strategy up until August 1947 was to unconditionally and unrestrictedly permit the influx of foreign capital. Following its independence, India struggled to decide how to treat foreign money while still facing a constant and necessary demand for economic expansion. However, the pressure of economic growth compelled the government to select a pragmatic strategy for foreign investment. The Industrial Strategy Resolution of April 6, 1948, was the first document to outline the Government of India's foreign investment strategy following independence. The government acknowledged the importance of foreign money and business, particularly with regard to industrial technology and knowledge, in order to quickly industrialize the economy. Due to prior experiences with the predatory role played by foreign traders in draining the country of its resources, the attitude towards foreign investment influx was one of the threats at the time of independence. The legislative enactments and policy directives that make up India's legal and institutional framework for FDI are mostly focused on the regulation of domestic investment. To shape and control FDI in order to achieve its policy objectives, the government has almost unrestricted discretion over how to interpret and apply these legal and policy requirements (Chopra, 2003). Up until the middle of the 1960s, the government maintained its liberal stance towards foreign investment. The outflow of remittances from profits, dividends, royalties, and technical fees, however, increased significantly as a result of its liberal policies. This outflow, which made up a sizeable amount of the country's foreign exchange account, alerted the government in the late 1960s when a new foreign exchange crisis emerged. As a result, the government implemented stricter guidelines for permitting international participation. The effects of foreign economic dominance and currency drain led to a tightening of FDI regime limits in the late 1960s. The country's foreign exchange account has been significantly impacted by the dramatic increase in outflows due to the remittance of dividends, profits, royalties, and technical fees since the policy towards foreign capital was liberalized until the middle of the 1960s. Due to a currency crisis that occurred in the late 1960s, procedures for approving foreign collaborations were streamlined, and a restricted mindset was adopted.

1968-1980:

The Mudaliar Committee, which was investigating issues relating to foreign partnership in 1968, advocated the establishment of the Foreign Investment Board (FIB) to handle all cases of foreign investment when the total percentage of foreign equity participation was up to 40%. Additionally, a FIB subcommittee was established to approve situations where up to 25% of the equity was controlled by foreign entities. Technical collaboration cases were subject to approval by the administrative ministries. The FIB, a committee of officials, was given the right to approve international collaborations involving up to 40% foreign stock, and this resulted in a clearly defined line of authority. The Cabinet Committee received the plan with more than 40% foreign equity participation. The period of limiting foreign equity participation to 40% began as a result of these rules, which supported foreign equity investment up to a maximum of 40% (Kumar, 1998). Ruddrat (2000) said that aside from businesses reserved for the public sector, the great industrial houses and foreign firms were permitted to setup enterprises with multibillion-dollar heavy investments under the new industrial policy, which was unveiled in 1970. On the promise of carrying out specific fare obligations, they increased their efforts and generated new ventures in several segments in 1970. In 1972, the Indian government decided to allow wholly owned subsidiaries of foreign corporations under the condition that they commit to exporting 100% of their produce. However, the amount of permitted foreign capital participation would be negotiated with the government if the new enterprise was to export less than 100 percent of its products. Even though the Indian government adopted extremely stringent policies, this continued to happen until the years 1972–1973. The 1970s and 1980s can be regarded as the most restrictive time period for FDI because policymakers were primarily focused on implementing the FERA during this time. But when it comes to the overall perception of FDI, we can really consider the entire period starting in 1949 as one of cautious encouragement and forceful reaction. The primary flaw in the FERA control system was its inability to exert control over the huge TNCs for which it was designed. It also discouraged potential investors, maintaining the exclusive control of both foreign and domestic money. India's development pattern during the first three decades (1950–1980) following its independence in 1947 was characterised by strong centralization, government ownership of foundational industries, excessive regulation and control of private enterprise, trade protectionism through tariff and non-tariff barriers, and a cautious and selective approach to foreign investment. The entire system was based on quotas, permits, and licenses, and it was run by a bureaucracy with colonial training. The so-called inward-looking import substitution strategy of economic development came under close scrutiny at the beginning of the 1980s. The flaws of this strategy, which hindered efficiency and competitiveness and produced a far lower rate of growth than projected, were recognised by policymakers. Due to the fact that the FDI policy during this time was both restricted and not export-oriented, it was unable to improve the balance of payments. As a result, steps were taken as part of the structural adjustment strategy to liberalize FDI regulations and open up our economy.

1981-1990:

There was a significant shift in India's general financial strategy in the late 1970s. To increase exports and foster competition in the domestic market, liberal trade and exchange policies were adopted. A significant shift in FDI policy occurred in 1980 when the Government of India allowed investment of up to 40% in the equity of new endeavours in certain businesses from Oil Exporting Developing (OED) nations without requiring that FDI be accompanied by an innovation exchange. It should be noted that India consistently saw FDI as fundamentally implying the trade of innovation to its producers, and as a result, it used to demoralize FDI that wasn't accompanied by technical expertise. A few schemes were offered with FERA relaxations for bringing in NRI assets. For example, the Bulk Investments Scheme for the Revival of Wiped-Out Industrial Units; the Investment in New Issues of Indian Shipping Companies under the 40% Conspiracy; the Investment in Priority Industries under the 40%/74 percent Plan; the Removal of Ceilings for Private Limited Companies; the Opening of Foreign Collection Accounts; and the Provision of Rupee Loans and Overdrafts for FDI in Export-Oriented Industries. In May 1988, the Indian government established a board known as the Fast Track Arrangement in order to facilitate a greater inflow of FDI. This game plan was created to allow for quick adaptation to the uses requested for various enterprise proposals in various ministries, government agencies, the RBI, etc. At first, investors from West Germany and Japan had virtual access to this office. In a similar vein, it was also made available to people from the UK, the USA, and France. The plan of action is carried out by a remarkable Venture Promotion Group, which is presided over by the Joint Secretary for Investments and includes representatives from the Ministries of Finance, Business, and External Affairs. The group looks into any unreasonable delays at any point in the FDI proposition's flexibility. The following are some of these expanded areas: tradition clearances, remote trade arrivals for settlements abroad, charge concessions, visas, opening of offices, faculty arrangements, and accelerated approvals for contemporary permits, joint ventures, etc. Since 1980, the environment for remote speculation in India has improved significantly as a result of these innovation efforts and technique simplification. According to the New Industrial Policy, which went into effect on May 31, 1990, up to 40% of outside equity interest in a company is allowed on a planned basis, provided that the landed estimation of imported capital does not exceed 30% of the estimated value of plant and machinery. However, according to Keshari (2013), this development will only apply to a "positive rundown" of enterprises. Throughout the entire 1970s decade, the government devoted particular attention to the FERA's implementation and enforcement. But as the decade came to a close, India was unable to significantly raise the volume and proportion of manufactured exports due to technical laggardism, a limited variety, poor quality, high production costs, and a fiercely protected local market. The decision-makers had already started to get concerned about the recurrence of the second oil crisis at this point. In order to update the machinery and equipment, the government liberalized the restrictions governing imports of capital goods and technology. It also let multinational corporations set up factories focused on exports in an effort to boost exports. Units that were solely focused on exporting received a variety of incentives and tax breaks. In addition to liberalizing trade rules, the government was amenable to international collaboration and investment. Administrative ministries were given the authority to sanction international cooperation in 1987 as long as there was no outflow of more than 10 million. In 1989, several actions were taken to remove procedural obstacles. Under April 1988 and March 1989, the Technical Development Fund Scheme was liberalized to permit the import of capital goods and technology up to the foreign exchange equivalent of Rs. 30 million, with the possibility of further relaxation under meritorious circumstances. Foreign corporations no longer need government approval to establish liaison offices in India, and the processes for sending royalties, technical fees, and dividends abroad have been expedited. The industrial policy resolutions of the 1980s included a liberalization of the FDI policy. However, the regulatory system remained inward-looking until the early 1980s. This period saw progressive liberalization and opening up. However, a number of legislative initiatives were started to liberalize the FDI environment in the nation, and the 1991 new industrial and economic policies significantly changed attitudes towards foreign firms. There were fewer restrictions and formalities for remitting income, dividends, and royalties. A quick channel was established to hasten the clearance of FDI bids. Through the 1985 Industrial Policy, the government enacted a number of measures to loosen its grip over industries, especially big ones. These policies, referred to as New Economic Policy, were in line with the Seventh Five-Year Plan (1985–1990)'s overarching objectives.

FDI patterns after 1990s:

However, the government's approach towards foreign capital underwent a U-turn in the 1990s. Previously, the government controlled its foreign capital investments and partnerships such that they complemented the overarching structure of the national economic policies. It no longer takes the selective stance it did in the past, when foreign capital was only allowed in particular areas that were crucial for this nation's survival and/or strategy. Instead, it now permits significant concessions and relaxations. Regarding foreign capital, the 1991 Industrial Policy declared a number of relaxations and concessions. For foreign investment, it has opened doors in a number of industries, even those of modest importance. Over time, FDI and PI policies and procedures have become increasingly lenient. With growing liberalization, the government has allowed FDI up to 100 percent under the automatic route in the majority of industries; equity limitations on FDI are currently present in only a small number of those sectors (Senthil, 2014). During the second half of the fiscal year 1990–1991 in India, there was a severe balance of payments crisis, a dramatic increase in external debt, and political turmoil. International credit rating agencies cut India's rating for both short- and long-term borrowing. The fall in worldwide confidence in the Indian economy has a detrimental effect on the flow of money from non-resident Indians in addition to making it challenging to borrow money on overseas markets. There was a net outflow of NRI deposits starting in October 1990 and continuing through 1991. Due to a rapid rise in petrol prices and the halt of remittances from Indian workers in the Gulf, the Gulf War worsened the situation and put a strain on the balance of payments. India was practically on the edge of default due to all of these events. The default was avoided by utilizing standby borrowing from the IMF (International Monetary Fund) and the compensation and contingency facility. It was also necessary to mortgage gold held by the Bank of England in order to raise further funds. In order to carry out its FDI policy, the government tightened the licencing requirements for exporters, decreased canalized imports, demanded a 200 percent cash margin on foreign exchange delivery, and restricted the issue of fresh letters to import more capital goods. Under the direction of Prime Minister Narasimha Rao, the new administration put policies in place in 1991 to maintain macroeconomic stability and make structural adjustments in order to develop an economy with a liberalized trade regime and almost no tariffs or licenses. The rupee had two devaluations in July 1991 as a result of reform-related measures (Kumar, 1998). In July 1991, the first round of reforms created an environment that was advantageous for foreign investment in India. This sparked the liberalization of the FDI policy. To obtain more cutting-edge technology, increase exports, and broaden the manufacturing base, one of the actions taken was to encourage international investment and technological cooperation. Numerous concessions were announced for foreign equity capital in 1991–1992. Foreign equity capital is now limited to 51%. Gas marketing, oil exploration, production, and oil refining all welcomed FDI. NRIs and foreign corporate entities were allowed to invest 100% of their equity in high-priority sectors like export houses, hotels, and tourism-related industries.

The most crucial step, according to Gopinath (2005), was the Foreign Exchange Management Act (FEMA), which replaced the Foreign Exchange Regulation Act (FERA), 1973. In order to promote international trade and payments as well as the constant expansion and maintenance of the Indian foreign exchange market, the Act aims to codify and amend the country's foreign exchange regulations. With a few exceptions, licencing was repealed, allowing companies to start operating without interference from the government. Industries including steel, automobiles, FMCG, and consumer electronics that experienced a surge in the number of new businesses entering the market were severely affected by de-licencing. FDI might take an automated path. With the exception of a few limited activities, no prior approval from the Reserve Bank of India's exchange control authority is required. Many new

Status Of Fdi In Indian Context:

The researcher encountered the issue of information availability for both aspects, investment trends in general and hotel industry trends specifically, during the analysis of the data presented in the form of various reports representing FDI investment trends in India in general and hotel industry trends specifically. For the period beginning with the financial year 2000-2001 to the 2017-2018, as organized in table 1, the DIPP (2018) and FDI fact sheets were determined to be the most pertinent sources of information. The same has been depicted in fig. 1 and examined accordingly. According to the figure, FDI in India as a whole was $2463 million in 2000–2001, but only $13.2 million, or 0.5% of all FDI, went to the hotel industry. The entire amount of foreign direct investment (FDI) for the fiscal year 2016–2017 was $43478 million, while the amount invested in the hotel sector was $916.13 million (2.10 of total FDI). This growth compares to the fiscal year 2000–2001 by more than 17 times for total FDI inflow and more than 69 times for the hotel sector.

Although these numbers seem outstanding, there have been ups and downs over the years. FDI inflows generally fell by 33% in 2002–03 compared to the previous year, although the hotel industry nonetheless saw an increase of 5.1% over that same period. Once more, in the following fiscal year, 2003–04, the total amount of FDI inflow declined by 19% compared to prior years, but the FDI inflow to the hotel sector grew by 46.3% over the prior fiscal year. It is important to observe that, despite overall dropping patterns, FDI in the hotel industry maintained positive tendencies. The finding, however, reveals a different pattern during the years 2004–2005, when overall investment inflow climbed by 47% from the previous year but FDI inflow to the hotel industry fell by 25%. There have been several instances in which the hotel industry has outpaced the total FDI influx during a specific fiscal year, but there have also been years in which the situation was reversed and the hotel sector's performance in terms of FDI inflow lagged far behind the entire increase of FDI inflow in India. When discussing the finest and worst performances, The years 2011–12 and 2012–13 saw the hotel sector perform best in terms of FDI inflow, with growth of more than 200% in both years. The years 2010–11 and 2013–14 saw the hotel industry perform worst, with a consequent decline in FDI inflows of 59.1% and 85.1%. The best growth rates for FDI inflow overall were 125% and 97% in the years 2006–07 and 2007–08, respectively, while the lowest was a decline of 36% in the year 2012–13.

Table 1 FDI data for the period starting from financial year2000-2001 to 2017-2018

Sr.No	Year	FDI Inflow in Million $		Percentage change over previous year	
		Hotel industry	**Overall**	**Hotel Industry**	**Over all**
1	2000-2001	13.2	2463		
2	2001-2002	32.12	4065	143.3	65
3	2002-2003	33.75	2705	5.1	-33
4	2003-2004	49.36	2188	46.3	-19
5	2004-2005	37.01	3219	-25.0	47
6	2005-2006	71.78	5540	93.9	72
7	2006-2007	195.66	12492	172.6	125
8	2007-2008	421.47	24575	115.4	97
9	2008-2009	463.92	31396	10.1	28
10	2009-2010	753.02	25834	62.3	-18
11	2010-2011	308.05	21383	-59.1	-17
12	2011-2012	992.86	35121	222.3	64
13	2012-2013	3259.05	22423	228.2	-36
14	2013-2014	486.38	24299	-85.1	8
15	2015-2015	777.01	30931	59.8	27
16	2015-2016	1332.69	40001	71.5	29
17	2016-2017	916.13	43478	-31.3	9
18	2017-2018	*	61960	*	43

* Hotel industry data not available for year 2017-18

Source: Authors illustration of various reports published by DIPP.

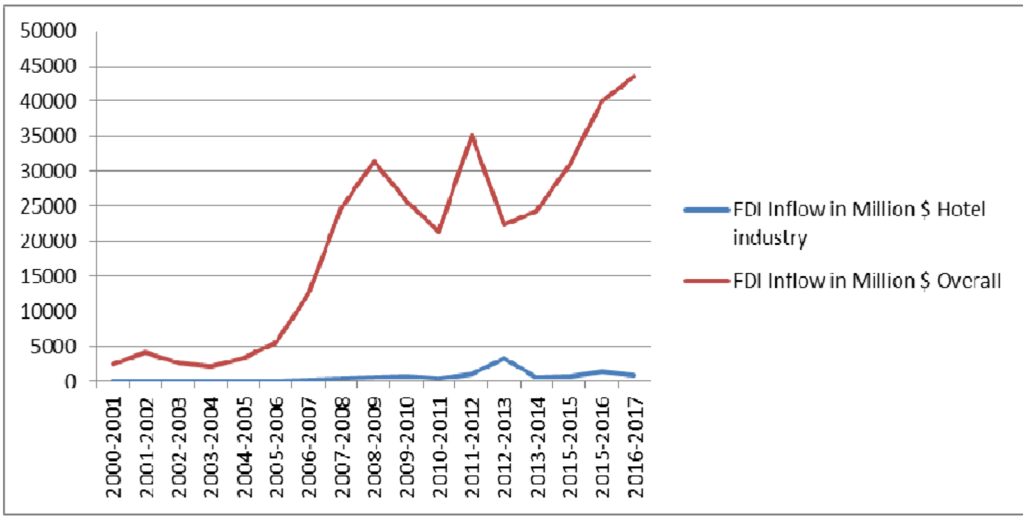


Fig 1 FDI inflow overall and in Hotel industry from 2000-2017

Source: Authors illustration of various reports published by DIPP

The other investment patterns for FDI inflow in India from April 2000 to June 2017 were valued at US$ 498901 million, whereas they were valued at US$ 14550 million during the first quarter of FY 2017–18 (April 2017–June 2018) (DIPP, 2018).

Conclusion:

The Indian hospitality industry now holds the tenth spot among the industries getting the most FDI. This demonstrates the hospitality industry's ability to support the expansion and prosperity of the Indian economy. From 2000–2001 to 2016–2017, the hospitality industry got a total of US$ 10143.46 million. If the Indian government keeps creating a favorable environment for FDI in the hospitality industry, that industry will do more to advance the nation's economy.

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