The Impacts of Foreign Direct Investment (FDI) has become one of the main elements for the increasing integration of world economy and firms’ internationalization. FDI has been an integral component of economic development strategy of many countries in the post globalization phase. FDI is one of the routes through which developing countries like Bhutan can make the best use of its tourism potential. The objectives of the study are to assess the impacts and to examine the factors affecting the FDI in tourism and hospitality Industry in Bhutan. A qualitative method was used and In-depth interviews were conducted with Government agencies, Tour operators, communities, and Hotels operated by Trans-nationals corporations in Bhutan. The study provides valuables insights into the impacts of FDI particularly to the development of tourism industry in Bhutan and also identifies the factors that attract FDI, thereby, facilitates to create an enabling environment for foreign investors.

Key words: Foreign Direct Investment, Economic Impact, Tourism, Trans-national corporations.
I. INTRODUCTION

The economic impact of Foreign Direct Investment (FDI) has become one of the main elements for the increasing integration of world economy and firms internationalization. It goes beyond the national boundaries in the process of growth (Buckley and Ghauri, 199 cited in Child and Rodrigues, 2005). Different countries and organizations may have different definition and some of them have defined it from the statistical point of view, like the one defined by the International Monetary Fund (IMF), while some definitions might convey the common sense usage of FDI only. The non-existence of common definition for FDI results from various reasons. Some countries do not have the machinery to collect such statistics on systematic methods. Other differences arise from different countries using different accounting conventions, statistical apparatus and standard procedures, due to the adoption of different conventions of asset ownerships in investment (South Centre, 1997).

The International Monetary Fund (IMF, 1993) has defined FDI as an investment made to acquire durable interest in enterprises operating outside the economy of the investor. The IMF suggests a threshold of 10 percent of the equity ownership to qualify an investor as a Foreign Direct Investor. While, according to World Trade Organization (WTO, 1996), foreign direct investment occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intention of managing the asset. Scholars like Krugman and Obstfeld (2000) define foreign direct investment as international capital flow from a firm in one country which creates a subsidiary of the parent company in another country (Host country), or which enables the firm to obtain a controlling interest in a foreign firm. FDI is distinguished from other forms of international capital flows that it goes beyond a transfer of resources; it also involves the acquisition of control of assets or movement of assets in another country. FDI is defined as foreign investors moving their assets into another country where they have control over the management of assets and profits (Graham & Spaulding, 2005).

Many governments have designed and formulated the policy accordingly by considering the costs and benefits of FDI. The main benefits from inwards FDI for the host country comes from resource transfer effects-FDI can make a positive contribution to the host economy by supplying capital, technology and management resources that would not be available otherwise. The FDI creates employment opportunities for the locals, balance of payment effects, effects on competitions and economic growth.

FDI has grown at a fast pace, even faster than the international trade in the recent years. It is widely suggested and believed that the trend towards globalized production and marketing has major implications for developing countries’ attractiveness towards FDI. The increasing importance of free trade and economic unions which aims at reducing barriers, are encouraging companies to go beyond their borders and make foreign direct investment. The boom of FDI flows to developing countries since the early 1990s indicates that multinational enterprises have increasingly considered these host countries to be profitable investment locations. At the same time, various experts argue that the determinant and motivations for FDI in developing countries have changed in the process of globalization.

In many developing countries, lack of capital is a major obstacle for tourism development and its growth. Therefore, foreign investors sought increasingly to provide the capital which will enable and accelerate the tourism industry in their country. Trans-National Corporations (TNCs) in the tourism usually have a positive impact on the host destinations.
The United Nations Conference on Trade and Development (UNCTCAD, 2010) World Investment report highlights a brighter future after a significant global FDI down turn in 2009; worldwide flows are expected to slightly recover in 2011, with a better recovery in 2012 and 2013. Overall, countries continue to liberalize and promote foreign investment, although there has been an increase in new policy measures regulating foreign direct investment. Countries remain receptive towards FDI, seeing it as an important external source of development finance.

**Overview of Bhutan’s tourism industry.**

The industry was solely operated by the government initially, in response to changing operational requirements; the tourism was first corporatized in 1983 and finally the government took the initiative of privatization in towards the end of 1991. The government took up the facilitating and regulating role with the establishment of the Tourism Authority of Bhutan (TAB). In 2000, the TAB was restructured and renamed as Department of Tourism under the Ministry of Trade and Industry. Realizing the Importance of a multi-sectoral approach towards tourism development, in 2008 the Department of Tourism was granted autonomy under the chairmanship of the Prime Minister and renamed it as the Tourism Council of Bhutan. Bhutan became a member of the United Nations World Tourism Organization (UNWTO) in October 2003, during the Annual General Assembly held in Beijing, China. The UNWTO is the leading international organization in the field of tourism and travel, with 154 member nations with its headquarters in Madrid (UNWTO, 2009).

From the initial stage of tourism in Bhutan in 1974, the Royal Government has taken a very cautious approach to its growth and development. The tourism policy has been based on the principle of “High Value and Low Impact”. This has been guided by the objective of minimizing the adverse impacts of tourism by keeping the volume of tourist to manageable levels while ensuring a steady flow of foreign exchange. The Bhutanese tourism industry is based on the principle of sustainability, which means it must be environmentally and ecologically friendly, socially and culturally acceptable and economically viable.

After the tourism industry was privatized in 1991, 622 registered local tour operators have been issued license till 2009 and out of which only 267 local tour operators were operational in 2009 (BTM, 2010). In order to improve the accommodation standards and quality of services, the Tourism Council of Bhutan has initiated a hotel classification system based on international star rating system with emphasis on green features, amenities and service quality. The minimum requirement of ‘3 star’ property was set for tourist accommodation to justify the tourism policy to promote high-end tourism. In 2012, some 12 ‘2 star’ hotels were upgraded into ‘3 star’ and above category. The International tourists increased from 40,837 in 2010, 64028 in 2011 and 105407 in 2012 (BTM, 2012). The gross earnings from tourism Industry was USD 47.68 Million in 2011 and USD 62.8 Million in 2012.

Visitors or tourists visiting Bhutan are required to book their travel through a licensed Bhutanese tour operator; the tourists are to be lodged in accommodations approved by the Tourism council of Bhutan as tourist standards. A daily rate of US dollar 250 per person per night during high season and US dollar 200 during the lean season.

The minimum price includes:

- All internal taxes and charges including the government royalty.
- Accommodation in TCB approved hotels and guest houses.
- All meals including afternoon tea and snacks but not drinks.
- Travel escorted by a licensed Bhutanese guide.
- Internal transport.
- Camping equipment and haulage for trekking tours.

**Salient Features of FDI for Tourism Industry in Bhutan.**

In case of Five Star and above category hotels with minimum project cost of Nu. 200 million, 100% equity through FDI is allowed by Royal Government of Bhutan. In case of four star hotels with minimum project cost of Nu. 25 million, only 75% equity are allowed by way of FDI. (Bhutan, Foreign Direct Investment Policy 2010).

According to the annual report of Tourism Council of Bhutan (TCB 2011), currently there are total of nine foreign companies investing in Bhutan, five of them are in operation while the four are under construction. The Amman group has five hotels across the country and the Uma group has two hotels while the rest have one hotel each. The total FDI hotels in operation are ten.

**Rational of the study.**

The Royal Government of Bhutan acknowledges the benefits of foreign Direct Investment on the economy as FDI can make a positive contribution to a country’s economy by supplying capital, technology and management skills generate employment opportunities and choices to the Bhutanese people. In-spite of these expected benefits; Bhutan pursued a conservative and restrictive foreign investment policy largely due to concerns over the potentially undesirable impact or negative impact that FDI may have on the Bhutanese tradition and culture, environment and ecology. The other reason may partly be based on the sentiments of private sector that has enjoyed and stands to benefit from such restrictions, as well as a general fear of large influx of foreign business enterprises from the region.

However, in the year 2002 the National Assembly of Bhutan had approved FDI policy realizing the importance of FDI and to cope with the global trends. That was the dramatic shift in the policy measures; Bhutan has so far not been successful in attracting much FDI. It could well be due to Bhutan’s small size, least developed, landlocked, mountainous country that had little to offer to attract investors and lack of skilled and professional workforce.

Bhutan is often cited as an outlier in tourism and investment; it has the reputation of being fairly closed to outsiders. This is not the reality although, but the myth appears to have served the country well at least in tourism. The Government has introduced a system of visitor permits and as explained earlier tourists are required to pay an advance minimum fee of $200 per day in addition to using a Bhutanese tour operators rather than travelling independently. This has contributed to Bhutan’s image as an exclusive destination that has conserved a pristine and unique environment (UNCTAD, 2007). Its revenues per tourist are higher than that of other countries with similar natural assets in tourism, including its neighboring country Nepal (WTTC, 2006).

The revised FDI policy “The FDI policy 2010” is more liberal than the earlier policy, FDI of 2002”. As per the revised FDI policy for the tourism, a hundred percent foreign investment will be allowed in the construction of five-star hotels in Bhutan on a selective basis to overcome the shortage of the financial capital in the domestic market and bring up the quality of services. Another important feature of the revised policy is that it will specify the monitoring responsibilities of different agencies. The policy will spell out the different
agencies to keep track of inflow of hard currency, employment generated and immigration issues.

II. LITERAURE REVIEW

FDI Concepts

The increasing importance of Multi-National Enterprises (MNEs) and FDI during the 1950s and 1960s created an opportunity and incentive for researchers to find theories that are able to explain the behavior of MNEs and the existence of international production. But the early theories could only explain a limited share of the total FDI flows and these theories were inadequate and failed to realize that FDI is not only a capital flow but constitutes a package including other components such as management and technology transfer.

According to Hymer (1976) the internationalization process of companies are of two kinds: variables related to the company’s dimension and ownership of specific assets (scale of economics, diversification and knowledge accumulation) and variables derived from the existence of market failures. This was considered to be a landmark in the study of FDI. From this classification of variables, two groups of theories and works can be distinguished in the literature; those framed within industrial organization (Kindleberger, 1969; Caves, 1971; Hirsch, 1980) and those of focusing on the internalization process (Buckley and Casson, 1976; Hennart, 1982, 1989; Teece, 1986; Rugman, 1981). However, Chang, (1995) and Madhok, (1997) argues that despite of analyzing FDI from different perspectives, both approach are complementary to each other. The authors within the industrial organization school set out from the hypothesis that multinational companies undertake FDI to benefit from the specific capabilities that they own, which give them certain monopolistic power (Kindleberger, 1969). Such power can become apparent in the form of innovative technological processes, patents, trademarks, financial resources, management abilities or exclusive distribution channels. Whereas, Caves (1971) consider the diversification of products as the main influencing factor and Hirsch (1980) emphasizes the importance of knowledge and capabilities generated from research and development activities. On the other hand, the internalization theory is founded on transaction cost economics (Williamson, 1975, 1985) and considers that the greater the presence of factors facilitating opportunistic behavior on the part of trade partners, the higher transaction costs incurred to protect against such opportunism. Thus, the company would incline towards internationalization forms which involve a higher degree of control, that is, it would prefer internalizing international activities through FDI rather than exporting or licensing.
Determinants of FDI

### Economic Conditions

<table>
<thead>
<tr>
<th>Markets</th>
<th>Size; income levels; urbanization; stability and growth prospects; access to regional markets; Distribution and demand patterns. Natural resources; location. Labour availability, cost, skills, trainability; managerial technical skills; access to inputs; physical infrastructure; supplier base; technology Support</th>
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</thead>
<tbody>
<tr>
<td>Resources</td>
<td>Distribution and demand patterns. Natural resources; location. Labour availability, cost, skills, trainability; managerial technical skills; access to inputs; physical infrastructure; supplier base; technology Support</td>
</tr>
<tr>
<td>Competitiveness</td>
<td>Management of crucial macro variables; ease of remittance; access to foreign exchange. Promotion of private ownership; clear and stable policies; easy entry/exit policies; efficient financial markets; other support. Trade strategy; regional integration and access to markets; ownership controls; competition policies; support for SMEs. Ease of entry; ownership, incentives; access to inputs; transparent and stable policies.</td>
</tr>
</tbody>
</table>

### Host Country policies

<table>
<thead>
<tr>
<th>Macro policies</th>
<th>Management of crucial macro variables; ease of remittance; access to foreign exchange.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>Promotion of private ownership; clear and stable policies; easy entry/exit policies; efficient financial markets; other support.</td>
</tr>
<tr>
<td>Trade &amp; Industry</td>
<td>Trade strategy; regional integration and access to markets; ownership controls; competition policies; support for SMEs.</td>
</tr>
<tr>
<td>FDI Policies</td>
<td>Ease of entry; ownership, incentives; access to inputs; transparent and stable policies.</td>
</tr>
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</table>

### MNE strategies

<table>
<thead>
<tr>
<th>Risk perception</th>
<th>Perceptions of country risk, based on political factors, macro management, labour markets, political stability. Company strategies on location, sourcing of products/inputs, integration of affiliates, strategic alliances, training, technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location, sourcing, integration transfer</td>
<td>Perceptions of country risk, based on political factors, macro management, labour markets, political stability. Company strategies on location, sourcing of products/inputs, integration of affiliates, strategic alliances, training, technology</td>
</tr>
</tbody>
</table>

Source: Lall 1997

### Impacts of FDI

Foreign direct investment (FDI) is an integral part of an open and effective international economic system and a major catalyst to development. Yet, the benefits of FDI do not increase automatically and evenly across countries, sectors and local communities. The national policies and the international investment architecture are responsible for attracting FDI to a larger number of developing countries and for reaping the full benefits of FDI for development. Therefore, to a greater or lesser degree, many governments can be considered pragmatic nationalists when it comes to FDI. Accordingly, their policy is shaped by a consideration of the costs and benefits of FDI (Hill, 2008).

Most of the literatures on the effects of FDI on the host country shows that the main advantages arise from:

- Resource-transfer effects,
- Employment effects,
- Balance of payment effects and
Effects on competition and economic growth.

FDI can make a positive contribution to a host economy by supplying capital, technology, and management resources that would otherwise not be available and thus boost that country’s economic growth rate (Lipsey, 2002) and (Li and Liu, 2005).

With regard to capital, many MNEs, by virtue of their large size and financial strength, have access to financial resources that are not available to host-firms. The funds are available from internal company sources, or, because of their reputation, large MNEs may find it easier to borrow from the capital market than host-country firms. Research also supports the view that multinational firms often transfer significant technology when they invest in a foreign country (Saggi, 2002). As per Ram and Zang (2002) FDI’s impact on competition in domestic markets may be particularly important in the case of services, such as telecommunications, retailing, and many financial services, where exporting is often not an option because the service has to be produced where it is delivered.

There are also potential drawbacks for host economies, economic as well as non-economic. Potential drawbacks include a deterioration of the balance of payments as profits are repatriated, a lack of positive linkages with local communities, the potentially harmful environmental impact of FDI, especially in the extractive and heavy industries, social disruptions of accelerated commercialization in less developed countries, and the effects on competition in national markets. While many of the drawbacks referred to as “costs” and the inward FDI has three main costs according to Hill, (2008):

1. The possible adverse effects of FDI on competition within the host nation because subsidiaries of foreign MNEs may have greater economic power than indigenous competitors as they may be part of a larger international organization.
2. Adverse effects on the balance of payments – with the initial capital inflows that come with FDI must be the subsequent outflow of capital as the foreign subsidiary repatriates earnings to its parent country and when a foreign subsidiary imports a substantial number of its inputs from abroad, there is a debit on the current account of the host country’s balance of payments.
3. The perceived loss of national sovereignty and autonomy arises with the key decisions that can affect the host country’s economy will be made by a foreign parent that has no real commitment to the host country, and over which the host country’s government has no real control. But most of the economists dismiss such concerns as groundless and irrational. Political scientist Robert Reich has noted that such concerns are the product of outmoded thinking because they fail to account for the growing interdependence of the world economy (Reich, 1991).

III. METHODOLOGY

A qualitative method was used for the study. An exploratory approach was applied to look for the relevant literatures and documents for the in-depth face to face interviews with the major stakeholders. Semi-structured in-depth interviews were conducted for data collection from Government organizations, FDI hotels, Tour operators and Communities to answer the objectives of the study, impacts of FDI in tourism in Bhutan and the determinants of FDI in Bhutan.

The data collected were analyzed using content analysis as it is a method to analyze recordings of interviews (Sekaran and Bougie, 2009). The responses from the respondents were coded into themes derived from the review of the literatures so as to ensure that the data coded are accurate and valid.
IV. FINDINGS

Respondent profiles.

Semi-structured personal in-depth interviews were conducted with the major stake holders of FDI in Tourism Industry in Bhutan. The total numbers of respondents was 16, who had a lot of knowledge and a minimum experience of five years in the Industry. Some of them were in decision making levels and were directly involved in FDI projects in Bhutan.

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Designation/Position</th>
<th>No. of Interviewees</th>
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</thead>
<tbody>
<tr>
<td>Government</td>
<td>Director and officer</td>
<td>2</td>
</tr>
<tr>
<td>FDI Hotels</td>
<td>General Manager/ Managers</td>
<td>5</td>
</tr>
<tr>
<td>Tour Operators</td>
<td>Proprietors/ Managers</td>
<td>5</td>
</tr>
<tr>
<td>Communities</td>
<td>Leaders/ heads</td>
<td>4</td>
</tr>
</tbody>
</table>

The interviews were concluded after the 16th respondents as responses were becoming common indicating the data saturation.

Impacts of FDI in tourism Industry.

According to the findings, the FDI had impacts on 1) Tourist Demand Patterns, 2) Capital Formation, 3) Human Resource and Employment, 4) Procurement and Supply Chain Linkages, 5) Impact on Domestic Enterprise Development and 6) Impact on Environment.

In additions to the impacts, the findings identified the factors determining FDI in tourism in Bhutan. The determinants are 1) Political and government policy factors, 2) Social, cultural and environmental factors, 3) Geographical/location factors, 4) Financial factors, 5) Economic factors.

Constraints face by the FDI in tourism in Bhutan

While Bhutan promises unlimited opportunities for foreign investors with favorable political condition, rapid economic growth, business friendly government policies, it is also equally constrained by its landlocked location and mountainous terrain. Weak private sector and lack of skilled personnel, limited carrying capacity of the only national airline, inability of the locals and domestic enterprises to meet the demands of the FDI hotels and small domestic market, long bureaucratic process for documentation were also some of the challenges that Bhutan faces and the Royal Government will have to make concerted effort to overcome these challenges if it were to attract more foreign investment into the country.

V. DISCUSSIONS AND CONCLUSION
The impact of FDI in tourism has been positive as frequently mentioned by the all respondents on tourist demand by assisting in increasing the no. of tourist visiting Bhutan. However, FDI hotels cannot be given the sole credit of increasing the visitors as most tourist visiting the country stay in domestically owned hotels. FDI hotels have made huge investments and helped to unlock Capital constraints, Human resource development has immensely gained for the FDI hotels due to the transfer of Management resources and has also facilitated in bring down the unemployment rate from 3.1 in 2011 to 2.5 in 2012 (Department of Labour, 2012). FDI had positive impact on Procurement and Supply Chain Linkages and on Domestic Enterprise Development. Minimal or no adverse effects on environment as FDI hotels operate in highly eco-friendly manners and due to their advanced technology, a lot of energy and resources are minimized.

The determinants of FDI, Political and government policy factors, Social, cultural and environmental factors, Geographical/location factors, Financial factors, Economic factors. The respondents mentioned the above determinants as have been crucial in attracting FDI in Bhutan. However the respondents from FDI hotels mentioned that the Government rules being little restrictive, time and cost consuming.

Conclusion
Based on the findings from the research, the following recommendations are being made to the Royal Government of Bhutan to be more cautious while making policies to attract more FDI in the country and instead formulate appropriate policy, regulation and strategies in order for FDI to contribute in overall development of the country in general and the sustainable tourism development in particular.

- Since the advantages and disadvantages of FDI are numerous and complex, it is not possible to declare that it will always have either a net positive or negative impact. The government must understand that the FDI is not a panacea and can only be effective as part of an appropriate overarching policy framework. FDI is best seen as a useful potential catalyst that can be a complement to domestic investment, but not a substitute.

- Bhutan does not possess huge mineral resources to attract resource-seeking FDI. Its ability to attract market-seeking FDI is also limited given the size of the domestic market. In the area of export-oriented, efficiency-seeking FDI, at the moment Bhutan is not an attractive location for assembly manufacturing for integrated global industries. Therefore, Bhutan should take an opportunity for attracting FDI basically limited to labor-intensive consumer goods production and tourism.

- While tourism offers many opportunities, the sector can be volatile and vulnerable to external shocks over which a destination may have little control. Whatever policy approach is used to promote and boost tourism and tourism related FDI, it is recommended that the overall approach have to be carefully considered. Excessive reliance on a single sector – no matter how broad and crosscutting is not always wise.

Research Limitations
The study may have the following limitations:
➢ There are only five FDI hotels operating in Bhutan as of now and it has limited size of population.
➢ Since FDI is relatively new to Bhutan and TNC hotels have entered only in 2004 and its optimum impacts may not have been covered in this study.
➢ Some of the views expressed by interviewees may not be true and fair due to the fact that interviewer is a government official.

REFERENCES


