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FOREIGN DIRECT INVESTMENT IN TOURISM SECTOR

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Abstract *Nowadays tourism is considered an appropriate and significant source of growth. Many countries regard the tourism as a potentially promising and capable way for economic development. Foreign direct investment (FDI) is one of the vehicles through which many countries can develop their tourism industry. FDI in tourism industry presents special challenges and concerns. Increasingly, however, the sector is being valued as a means of earning export revenues, generating jobs, promoting economic diversification and a more services-oriented economy, helping to revive declining different urban areas and cultural activities, and opening up remote rural regions.*

Key words:
Tourism-related foreign direct investment, economic impact, policy measures

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Introduction

Over the years, tourism has proved to play an essential role for the *development, prosperity and well-being* of a country. The fact that there are more and more tourist destinations all over the world and the investments in tourism are increasing, all these have turned tourism into an element directly linked to the *socio-economic development* by means of *creation of jobs and companies, infrastructure expansion and export revenues.*

As far as tourism is concerned, *the capital, the infrastructure, the knowledge and the access to global marketing and distribution chains* are essential. As a rule, foreign direct investment (FDI) is deemed one of the most efficient mechanisms that could bind all the elements. For this reason, developing countries are more and more interested in attracting such investment.

Even so, it is worth mentioning that, despite all these facts, FDI is approached by many countries with scepticism and optimism at the same time. Even if nobody can deny its positive effects, there are concerns with respect to its *potential damage over the environment, the communities, and over the cultural and economic independence.* On the one hand, there are efforts made in order to attract FDI in tourism while, on the other hand, there are complaints about the fact that the domestic economy does not feel the benefits of tourism, the *foreign investors tend to take control over the sector* or, even, that there is too much FDI.

1. Trends of global tourism

As reported by the United Nations World Tourism Organisation Tourism (UNWTO), the worldwide tourism can be summarized in the following key figures: 9% of GDP – direct, indirect and induced impact; 1 in 11 jobs; 1.4 trillion USD in exports; 6% of the world's exports; from 25 million international tourists in 1950 to 1087 million in 2013; 5 to 6 billion domestic tourists; 1.8 billion international tourists estimation for 2030.

Pursuant to the annual reports by UNWTO, the presence of the tourists has gone up on a year by year basis. (Table 1)

Table 1. The evolution of international tourist arrivals between 2000-2013

Indicators	International tourist arrivals (million)					Market share (%)	Change (%)	
Years	2000	2005	2010	2012	2013	2013	2012/2011	2013/2012
World	677	807	948	1,035	1,087	100	4.1	5.0
Advanced economies	*421*	*459*	*506*	*551*	*581*	*53.4*	*3.8*	*5.4*
Emerging economies	*256*	*348*	*442*	*484*	*506*	*46.6*	*4.4*	*4.5*

Source: *World Tourism Organization (UNWTO), UNWTO Tourism Highlights, 2014 Edition*

As illustrated in table 1, international tourist arrivals (overnight visitors) rose by 5% in 2013, reaching a record 1087 million arrivals worldwide, up from 1035 million in 2012, when the 1 billion mark was exceeded for the first time ever. Even if the global economy has been characterised as being in 'low gear', the demand for international tourism went beyond expectations, with a supplementary 52 million international tourists travelling worldwide in 2013.

Among all the continents, *Europe was the absolute leader,* welcoming 29 million more international tourists in 2013, and raising the total to 563 million. The increase (+5%) was double the region's average for the period 2005-2012 (+2.5% a year). *Asia and the Pacific* recorded the fastest relative increase across all UNWTO regions, with a 6% growth in international arrivals, or 14 million more than in 2012. *Africa* had a growth of 5%, meaning 3 million more tourists, reaching 56 million. In the *Americas*, international arrivals increased by 3% to 168 million, or a growth of five million. The *Middle East* (0%) has not yet managed to return to growth, in spite of the fact that some of their destinations proved to be quire successful.

In comparison with 2013, the *number of tourists has increased in 2014*. Pursuant to the UNWTO's world tourism barometer, in the first half of 2014, global tourism went up by 5% in spite of the fact that the circumstances were not very favourable. It is worth mentioning here the recent geopolitical challenges, including the outbreak of the *Ebola* virus in Guinea, Liberia and Sierra Leone in western Africa, and continued civil unrest in parts of eastern and southern Ukraine.

According to UNWTO's latest report, between January and August 2014, 781 million international tourists were recorded worldwide, which was an increase of 36 million from the same period in 2013. At the regional level, the greatest increase was recorded in the Americas, where tourism increased by 8%.

The second largest increase was encountered in Asia-Pacific, where UNWTO recorded a 5% increase in tourist numbers. Tourist flows into Europe increased by 4%, as stated by UNWTO.

International tourist arrivals at the international level are supposed to go up by 3.3% a year from 2010 to 2030 in order to reach *1.8 billion by 2030*, pursuant to UNWTO's long term estimations. Between 2010 and 2030, arrivals in emerging destinations (+4.4% a year) are expected to go up at twice the rate of those in advanced economies (+2.2% a year). The market share of emerging economies increased from 30% in 1980 to 47% in 2013, and is expected to get to 57% by 2030, which means over 1 billion international tourist arrivals.

2. Tourism and FDI

FDI that result from business travel introduces capital, technology, skills, people, know-how, demand for local supplies to the domestic economy, and brings improvements in trade balances. It can also create new products and provide opportunities for local businesses further down the supply chain.

Before an investment is made in a foreign country, a company will assess the potential of a variety of local destinations. Once successful then the company will roll out its operation, including standardised products and global branding. By applying FDI the destination gains further access to global markets. Loyal corporate partners of a hotel chain will then be presented with the choice of a new hotel, a new destination. The extent to which smaller hotels and tourism businesses can compete is an issue of concern but both have the potential to co-exist.

Recent trends are for global brands to franchise their operations. In so doing they do not directly own the buildings as property management is provided by other companies. Within the hotel sector the company will supply the brand and management services. This has advantages to a hotel group as they are not required to provide the investment for the buildings. In general an investor without knowledge of the hotel industry can acquire land and build a hotel for a foreign company to manage. This is a typical feature of FDI in tourism as compared with other sectors of industry.

Airport hubs are critical for increasing FDI by providing connections to a parent company, specialist supplies, and facilitating exports.

Tourism can trigger the economic development due to the fact that it provides a number of *forward and backward linkages.* Hotels and tourist resorts need provisions from *farmers, food and drink companies, construction, communication and utility companies* such as electricity, gas, water and sewerage. Because the effect of tourism investment provides a demand for these services, these are called backward linkages.

When services are offered to other sectors, such as *conference and events management, entertainment industries, tour operations*, and so on, we deal with forward linkages. The issue is to develop these linkages in order to make most of the advantages of FDI to the local economy by means of the local companies. In such case, it goes without saying that the hotel is at the centre of the value chain. Local farmers can be stimulated to adapt production methods in order to provide the hotels with fresh products, instead of importing food.

There have been studies on the negative effects of the tourism industry investigating the way in which the community values and the *environmental quality* are affected because it is necessary to know how to handle these negative effects appropriately and to stimulate the advantages.

In order to develop the tourism industry, it is essential to have the *infrastructure*, including transport, utilities and telecommunications to a certain standard otherwise investment is needed. In case of the developing countries which are deficient in the necessary capital, technology or knowledge, FDI is perceived as a means of filling the gap.

As unexpected as it may seem, tourism is deemed an *unglobalized* activity given the fact that the range of its sub-activities is very narrow. *FDI is concentrated in a section of tourism activities*. For instance, they appear to occur most frequently in hotels, restaurants, passenger transport rental equipment; occasionally in railway passenger transport services, air passenger transport services; rarely in road passenger transport services, water passenger transport services, passenger transport supporting services, travel agencies and similar, cultural services, sports and other recreational services.

As a conclusion, the foreign profile of transnational corporations (TNCs) in tourism is very different from their profile in other activities. The majority of the world's hotel chains do not have a physical presence in many countries. For the most part only the largest chains or those operating at the top end of the market have a truly global reach. Similarly, most travel agents and tour operators do not have dedicated offices in the countries to which their clients travel. Foreign investment is increasing in transport services such as airlines, but it is still relatively small in scale compared to other economic activities. Moreover, in airlines in particular, *alliances* are more common than equity investments. The inward FDI stocks are concentrated primarily in hotels and restaurants, and secondly in air and water transport.

3. The impact of FDI on tourism

Studies reveal that the three main factors that determine the impact of tourism-related FDI (TFDI) are: the geography of that country, the level of development (and maturity) of the tourism industry in a particular country, and the policy environment.

The *geography of a country* is said to be essential in the process influencing the impact of TFDI depending on their *natural resources* such as beach versus wildlife (safari) or other *natural tourist attractions* (or a combination of the two). In case of the countries provided with wildlife or natural resource attraction it has been proved that local communities need to engage more with respect to sourcing and corporate social responsibility. It is said that the impact here is felt immediately unlike the case of urban tourism where effects are distributed to a wider extent.

The *level of development* of the tourism industry in a particular country is considered to result in a different impact of TFDI. Thus, in countries where tourism is a mature sector, the tourism industry has built reliance on local sourcing, *leading to stronger and wider linkages with the local economy* than in the case of the less mature ones, where a great deal of sourcing comes from overseas (because of the absence of locally available quality supplies).

The *policy environment* consists of policy reforms that generate further inflows of FDI (not only in the tourism industry). This can be adapted so as the foreign and domestic private sectors could efficiently benefit from each other leading to the *creation of a welcoming environment.*

Specialists argue that in the case of a more mature industry, the level of reliance on local private providers and their ability to live up to the industry's expectations, tends to be higher. As a result, the linkages of TFDI with the domestic economy will be greater, leading to a positive effect.

As well as that, specialists argue that the development dimension of TFDI may differ depending on the *regional integration*. It is worth mentioning that a lot of nations are part of various regional groupings (EU, NAFTA, APEC, ASEAN etc.).

Further factors influencing the impact of TFDI are the historical contexts, the motivation and corporate strategy of the TNCs.

The TNCs contribution to the creation of value in a host country, and the extent to which that value is obtained by local companies and the government (e.g. in taxes), as well as by TNCs, all these can have a great effect on tourism-related FDI.

The development of a country may be influenced by the presence of FDI by means of *promoting trade and transfers of knowledge, skills and technology*. On the other hand, TNCs cannot replace the local effort; they can only provide access to tangible and intangible assets and speed up local investment and capabilities.

The tourism is such a *crosscutting industry*, it can also potentially create spillovers into further investment, jobs and growth in other sectors of the economy.

However, in spite of the fact that the role played by the FDI is inestimable, FDI is not the *solution to all the problems* as it cannot by itself put a stop to the marginalization of developing and less developed countries.

4. Policy approach of FDI in tourism

For the purpose of attracting more investment, a lot of countries have taken policy measures necessary for the promotion of their tourism sector. With this intention, the entire policy framework has to be created so as the country to take full advantage of all the opportunities and reduce any costs involved by the investment.

TFDI policy cannot be separated from the wider policy framework as there is the risk to gain only a limited benefit from attracting investors in the absence of the necessary policies. So it is crucial to have a coherent and integrated policy framework.

As the tourism industry is related to a lot of interlinking activities including provision of services by many providers, whether private or public, the amount and scope of policies that need consideration are large, extensive and varied. They consist of environmental laws and regulations, vision in town planning and rules, general education and specific tourism-related educational policies, a transport policy, a labour policy, a wide range and level of financial institutions, health and safety standards, an agriculture policy and telecommunications.

Not only these policies have to be created but they have to be put into force as well. This demands sufficient human and financial resources to be allocated at the national, regional and local levels.

Eventually, local communities have to be supported by means of proactive policies in order to gain the *skills and resources* necessary for them in order to make the most of the advantages created by tourism.

Considering the fact that every country has its own specific, it stands to reason that an integrated approach is necessary. The countries may differ in terms of natural availability for tourism, created assets, main sources of competition, sources and levels of investment (whether local or foreign), geopolitical history or institutions and, most importantly, wider national policy goals and objectives which should include tourism.

In spite of the fact that each country has to connect all the TFDI policies in an integrated way with the wider policy context, in reality these things happen differently.

There are a lot of countries that have a relatively "*stand-alone" tourism ministry* and some subordinate tourism-related departments and agencies whereas in a small number of countries tourism is united at the ministerial level with other portfolios such as natural resources or trade.

A lot of experts support the presence of a high-level, *inter-ministerial body* for policy-making on tourism in order to promote coordination between government departments, ministries and the private sector.

The presence of foreign hotels and other foreign investors in tourism is very important for the locally available *investment capital, managerial expertise and business know-how.* Indeed they create jobs and attract tourists but it is not sufficient that is why policies should first focus on value creation. This gives rise to the creation of high-skilled and high-paid jobs, as well as the provision of goods and services in the wider tourism value chain.

As well as that, policies should support local companies in acquiring a greater degree of value making sure that they may be equal partners in the process. In such case, the domestic entrepreneurs should improve their capabilities.

5. Conclusions

A lot of countries regard tourism as an open door for economic and human development. It is common knowledge that international tourism is an industry characterised by rapid *growth providing a great deal of opportunities both for corporations and for countries.*

This is the reason why countries are so *open to FDI in tourism and encourage TFDI* so actively. As a result, a lot of trade fairs and other promotional activities are organised, hotel investors or management companies are welcomed with fiscal and financial incentives and a lot of measures are taken in order to guarantee public-private partnerships. Nevertheless, we have to mention the fact that in this entire process, countries sometimes fail to take notice of the policies that would allow them to take more advantage from the FDI they attract.

In order to make sure that the countries benefit more from TNC participation in the tourism industry and the potential negative impact is as low as possible, it is crucial to have an integrated, coherent approach and policy framework. In such case, the tourism should be promoted in a different manner, so that it can create more and better linkages throughout the value chain.

For instance, *ecotourism is very popular* nowadays bringing clear advantages for the environment; however it does not lead to the creation of jobs. Thus, tourism needs to adapt more with a country's objectives for human and social development, taking into account the resources and the needs of each country in particular. In order for that to be possible it is necessary to have a coordinated approach that includes government promotion of certain key elements.

All things considered, it is worth mentioning that *TFDI* not only provides a lot of opportunities, it also generates a great deal of costs. In addition to that, this sector can prove to be unstable and unprotected in case of external shocks over which a destination has almost no control. Irrespective of the policy approach for the promotion of *TFDI*, it has to be treated with a great deal of consideration.

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