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An Overview of Foreign Direct Investments in Tourism and Hospitality Industry

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Abstract: *Tourism is one of the leading economic sectors of our time. The Tourism Investment report by fDi Intelligence of the Financial Times shows the link between foreign direct investment in tourism as a driver of job creation and economic growth worldwide. In an increasingly interconnected global economy, foreign direct investments (FDI) play a pivotal role in shaping the growth trajectory of various sectors. One such sector that has witnessed a substantial impact from FDI is tourism, a thriving industry that not only contributes significantly to a nation's GDP but also plays a pivotal role in job creation. This article delves into the symbiotic relationship between foreign direct investments in tourism and the generation of employment opportunities, shedding light on the mutual benefits that arise when nations open their doors to international investors. It also explores the significance of foreign direct investments in tourism, examining the positive effects on economic development, job creation, and the overall sustainability of the sector.*

1. INTRODUCTION

Tourism has established itself as the third-largest export category in the world, and in many high-growth economies, tourism is already the number one export. Between 2013 and 2017, foreign direct investment in tourism has remained strong resulting in hundreds of projects and tens of thousands of decent jobs each year, accounting for a staggering 10 percent of global GDP and jobs. In some regions, including Asia-Pacific, Europe, Latin America and the Caribbean, billions of dollars of capital were invested, and tens of thousands of jobs were created in 2017 alone (Fdi Markets, 2017). This gives us a very positive outlook for foreign direct investment in tourism at the end of the decade and is a testament to the resilience and reliability of our sector to the global economy.

In addition to its positive economic impact, it is important to point out that tourism also makes a social and environmental contribution. The United Nations World Tourism Organization (UNWTO) has committed to further strengthening tourism as a key partner in the implementation of the UN Sustainable Development Goals (SDGs). Foreign direct investments in the tourism industry contribute significantly to the economic development of host countries. The infusion of capital from foreign investors helps create job opportunities, stimulating employment across various sectors such as hospitality, transportation, and local services. Increased employment rates, in turn, lead to improved standards of living for local communities.

Moreover, FDI facilitates the development of tourism-related infrastructure, including hotels, resorts, transportation networks, and recreational facilities. These investments enhance the overall competitiveness of a destination, making it more attractive to international tourists and creating a positive cycle of economic growth.

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2. LITERATURE REVIEW

Foreign direct investment (FDI) is defined as an investment made to acquire a lasting interest in enterprises operating outside the investor's economy (IMF, 1993; WTO, 1996). In today's business world, more and more multinational companies are engaging in foreign direct investment. These companies are primarily motivated by the prospect of high profitability, along with the opportunity to reduce production costs, gain access to the local market, acquire higher quality natural, physical, or human resources at lower costs, and increase efficiency to improve global market position (Dunning & Lundan, 2008).

The influx is often seen as an essential component in promoting economic growth, as it brings with it technology, knowledge, capital and jobs that can have a positive impact on the host country's economy (Cambazoglu & Simay Karaalp, 2014). The governments of many developing and least-developed countries rely on the private sector and foreign investors to transform their economies and accelerate economic growth. Therefore, many countries around the world are opening their economies to foreign investors, structuring and liberalizing their FDI regimes and offering various tax and non-tax incentives to attract optimal levels of FDI. However, many countries are not able to realize their potential level of FDI as the movement of FDI depends on various economic, political and institutional factors. For this reason, research in the field of international studies has gained considerable attention to empirically investigate the determinants of FDI inflows (e.g. Asiedu, 2002; Chakrabarti, 2001; Leonardo et al., 2018; Moosa, 2009; Tang, 2017; Wijeweera & Mounter, 2008).

Mah and Yoon (2010) analyzed the determinants of FDI inflows to Indonesia and Singapore. Their empirical results based on a small sample cointegration test showed that in the case of Singapore, where per capita income is quite high, market size appears to have a positive and significant impact on FDI inflows, while variables reflecting production factor costs do not. Several studies have also been conducted to examine the determinants of FDI in various South Asian countries. Regarding the determinants of FDI in India, Wei (2005) concluded that the factors of cheap labour costs and geographical distance are important in attracting FDI. Zheng (2009) analyzed and compared the determinants of FDI inflows in India and China by considering both host and home country characteristics. His study found that labour costs, market growth, the country's political risk, imports and political liberalization were the most important factors for both countries.

However, cultural and geographical distance factors were important for India's FDI, while market size, exports and costs of credit were important for China's FDI. The size of the market, the level of development of the state, the financial strength of the state and the level of infrastructure were further determinants of FDI inflows in India, as shown by Dhingra and Sidhu (2011). Several studies have been conducted to analyse the determinants of foreign direct investment in various Middle Eastern countries. Among these studies, Coskun (2001) analysed the factors influencing foreign investment decisions in Turkey based on the results of three different surveys. The results showed that the market size and economic potential of the country were the most important considerations when deciding to invest in Turkey. In addition, belonging to powerful economic blocs, low-cost labour and cheaper inputs were other important determinants of foreign direct investment in Turkey.

Rodríguez and Pallas (2008) found that the difference between labour productivity and labour costs was an important determinant of FDI in Spain. They also concluded that factors related to demand, the development of human capital, the export potential of sectors and certain macroeconomic determinants that measure the average gap between Spain and the European

Union also play a crucial role in attracting FDI flows to Spain. Several papers have conducted cross-national studies on the determinants of EU economies (e.g. Bellak et al., 2009; Casi & Resmini, 2010; Igošina, 2015; Janicki & Wunnava, 2004; Leonardo et al., 2018; Oezkan-Guenay, 2011; Stack et al., 2017; Villaverde & Maza, 2015; Tang, 2017). Bevan and Estrin (2004) found that labour costs, gravity factors and market size are the most important determinants of foreign direct investment in Central and Eastern European countries (CEECs).

Villaverde and Maza (2015) examined the determinants of foreign direct investment in the EU region between 2000 and 2006 and found that labour market characteristics, economic potential, competitiveness and technological progress had a significant impact on the inflow of foreign direct investment in the EU region, while labour regulations and market size did not play a significant role. In contrast, Igošina (2015) found that market size in combination with GDP growth rate, trade openness, labour costs and inflation rate had a significant impact on attracting foreign direct investment in the EU countries.

3. TOURISM INVESTMENTS FROM 2013 – 2021

3.1. Asia-Pacific

Between 2013 and 2021, a total of 996 FDI projects were announced in the Asia-Pacific region. This resulted in capital investments worth $103.4 billion and the creation of over 187,740 jobs. In terms of projects, foreign direct investment in tourism in the Asia-Pacific region peaked in 2018, when 194 investments worth $28.6 billion were announced and 47,010 jobs were created. The amount of capital investment in the region fell from $28.6 billion in 2018 to just $1.6 billion in 2021, while the number of jobs created fell from about 47,400 to 3300.

Table 1. Tourism FDI into Asia-Pacific 2013 – 2021

Year	Capital Investment ($bn)	Total projects	Jobs created
2013	9.6	122	17,451
2014	3.4	76	7,642
2015	8.0	86	15,102
2016	10.3	99	20,605
2017	6.3	84	18,250
2018	28.6	193	47,010
2019	24.3	167	37,009
2020	5.0	53	9,030
2021	1.6	32	3,029
Total	**103,4**	**996**	**187,740**

Source: Fdi Markets, 2022

China attracted the largest share of tourism FDI in the Asia-Pacific region between 2013 and 2021, with 208 equivalent investments or a market share of 20.97%. The country also saw project growth of 26% between 2018 and 2019, but the number of projects dropped to four in 2021, down 86% from 2019. China is followed by India (119), Singapore (89) and Japan (89) in the number of projects in the tourism sector between 2013 and 2021.

India ranks second in the Asia-Pacific region in total investment from 2013 to 2021, with a 12% market share, but has attracted the lowest number of tourism projects, with only two investment projects in 2021. This is an 88% drop in investment from 2019 when India reached its highest level of investment (Fdiinteligence, 2018, 2019, 2022).

Table 2. Top Countries in Asia-Pacific by number of projects 2013 – 2021

Country	Number of Projects	Proportion of Tourism FDI Projects in Asia-Pacific 2013-2021
China	208	20,97%
India	119	12,00%
Singapore	89	8,97%
Japan	89	8,97%
Australia	88	8,97%
Vietnam	60	6,05%
Thailand	51	5,14%
Indonesia	44	4,43%
Hong Kong	39	3,93%
South Korea	14	1,41%
Other	191	19,25%

Source: Fdi Markets, 2022

The third country with the largest number of projects from 2013 to 2021 is Singapore with 89 investments and a market share of 8.97%. In 2021, the number of projects in Singapore increases to a total of 6 projects with a total investment of $25 million and 168 jobs created, which is double the tourism investment in 2020. The city-state will receive the most tourism investment of all Asia-Pacific countries in 2021. This is still half of what Singapore received in 2019. Japan also attracted 89 projects from 2013 to 2021, the same market share as Singapore and Australia with 88 projects. In 2018, 28 investment projects were announced in Japan, which was the peak year for Japan, but between 2018 and 2021, projects declined significantly, with only one investment in 2021. The amount of investment and the number of jobs created in Japan also reached a peak in 2018 (Fdiinteligence, 2018, 2019, 2022).

3.2. Europe

Between 2013 and 2021, 1317 tourism FDI projects were recorded in Europe and led to an investment volume of more than 67.7 billion dollars and the creation of more than 142,423 jobs. The peak year for tourism investment in Europe was 2019, with 293 projects, $611.4 billion in capital investment, and nearly 26,311 jobs created. The United Kingdom accounted for the majority of European tourism FDI projects with a market share of 19.57% and also had the largest share of job creation. The UK was followed by Spain with 179 projects and a market share of 12% and Germany with 171 projects and a market share of 11.74%. The two countries together attracted 350 projects and had a market share of 23.74%.

Table 3. Tourism FDI into Europe 2013 – 2021

Year	Capital Investment ($bn)	Total projects	Jobs created
2103	4,0	102	12,941
2014	1,9	92	5,892
2015	5,3	106	13,311
2016	3,7	108	10,441
2017	7,1	138	16,140
2018	25,5	215	35,442
2019	11,4	293	26,311
2020	5,1	135	11,441
2021	3,7	128	10,504
Total	**67,7**	**1317**	**142,423**

Source: Fdi Markets, 2022

Both capital investment and the number of jobs created by foreign direct investment in tourism in Europe reached an all-time high in 2018, with 25.5 billion invested and 35,442 jobs created. Between 2018 and 2021, capital investment in Europe fell by $21.7 billion, while job creation fell by 70%. Spain was the leading destination with $21.2 billion in capital investment and 22,900 jobs created between 2017 and 2021. Between 2013 and 2021, Turkey was the top target in emerging Europe in terms of the number of projects. It received 55 tourism investments totaling $332.5 million and created 2200 jobs (Fdiinteligence, 2018, 2019, 2022).

Table 4. Top Countries in Europe by number of projects 2013 – 2021

Country	Number of Projects	Proportion of Tourism FDI Projects in Europe 2013-2017
UK	285	19,57%
Spain	179	12%
Germany	171	11,74%
France	140	12,98%
Portugal	78	9,61%
Italy	62	4,25%
Netherlands	57	3,91%
Turkey	55	3,77%
Ireland	41	2,81%
Poland	25	1,71%
Russia	19	1,30%
Other	344	23,62%

Source: Fdi Markets, 2022

3.3. North America

North America attracted 284 foreign direct investment projects in tourism between 2013 and 2021, investing nearly $21.5 billion and creating more than 44,111 jobs Both investment and the number of jobs created by foreign direct investment in tourism in North America peaked in 2019 with $3.5 billion in investment and 6,420 jobs created. In 2021, 28 tourism projects were recorded — an increase of 4% compared to 2020. These projects generated $776 million (a decrease of 37% compared to 2020) and created approximately 2400 jobs (31% less than 2020). Tourism FDI in North America increased from $2 billion in 2017 to more than $3.4 billion in 2019, before declining to $1.2 billion in 2020. In 2021, investment in the region falls to $776 million (Fdiinteligence, 2018, 2019, 2022).

Table 5. Tourism FDI in North America 2013 – 2021

Year	Capital Investment ($bn)	Total projects	Jobs created
2013	2,5	22	6576
2014	2,5	17	6140
2015	4,6	34	7190
2016	1,2	25	2151
2017	2,9	32	5412
2018	2,4	44	4600
2019	3,4	53	6420
2020	1,2	28	3410
2021	0,8	29	2212
Total	**21,5**	**284**	**44,111**

Source: Fdi Markets, 2022

The leading American state for foreign direct investment projects in tourism between 2013 and 2021 is New York (62), followed by Florida (54) and California (39). These three states account for almost half of all foreign direct investment projects in tourism in the region.

California and Florida had a combined 93 projects and held a combined market share of 34.96% of tourism FDI projects and 33% of tourism investment in North America between 2017 and 2021. Over this period, Florida has eclipsed its West Coast rival in absorbing more tourism projects, capital investment and jobs (Fdiinteligence, 2018, 2019, 2022).

Table 6. Top Countries in North America by number of projects 2013 – 2021

Country	Number of Projects	Proportion of Tourism FDI Projects in North America 2017-2021
New York	62	23,31%
Florida	54	20,30%
California	39	14,66%
Ontario	19	7,14%
Nevada	6	2,26%
British Columbia	5	1,88%
Alberta	4	1,50%
New Jersey	4	1,50%
Quebec	4	1,50%
Illinois	4	1,50%
Colorado	3	1,13%
Other	62	23,31%

Source: Fdi Markets, 2022

3.4. Latin America and the Caribbean

Latin America and the Caribbean attracted 448 foreign direct investment projects in the tourism sector between 2013 and 2021. During these eight years, more than 158,885 new jobs were created, and $36.6 billion worth of capital was invested in the region.

Mexico, Brazil and Colombia (the region's top three destinations for foreign direct investment in tourism between 2013 and 2021) accounted for more than half of all foreign direct investment in tourism in the region. Mexico was the most attractive country for foreign tourism investment from 2103 to 2107, accounting for 28.8% of tourism projects in Latin America, 36.6% of tourism jobs created, and almost 33% of tourism investment. 2017 was the best year for tourism investment in Mexico. Over $1.3bn was invested, 20 projects were announced, and more than 10,600 jobs were created.

Table 7. Tourism FDI into Latin America and the Caribbean 2013 – 2021

Year	Capital Investment ($bn)	Total projects	Jobs created
2103	3,5	50	22,929
2014	1,0	19	6673
2015	2,0	19	14,354
2016	2,4	32	15,857
2017	3,7	55	15,000
2018	8,3	133	34,750
2019	11,3	95	35,680
2020	3,6	29	10,800
2021	0,8	16	2,812
Total	**36,6**	**448**	**158,885**

Source: Fdi Markets, 2022

In 2021, investments in Latin America and the Caribbean will decrease by 78% compared to 2020, from 3.6 billion dollars to 800 million dollars. During this same period, job creation in the region has also fallen significantly, from around 10,500 in 2020 to 3,200 in 2021.

Mexico was once again the most important target market in the Latin America and Caribbean region between 2017 and 2021. Mexico accounted for 33% (108) of all foreign direct investment in tourism in the region. With a market share of 33% ($9.3bn), Mexico was also the leading country in terms of capital investment and created the most jobs (33,800) in Latin America and the Caribbean.

Colombia and Peru ranked second and third in foreign direct investment in tourism with 40 and 30 projects respectively between 2017 and 2021, with Colombia having a 12% market share and Peru a 9.1% market share. Colombia also ranked second in terms of capital investment with $5.5bn, representing 20% of the regional total over the five years (Fdiinteligence, 2018, 2019, 2022).

Table 8. Top Countries in Latin America and Caribbean by number of projects 2013 – 2021

Country	Number of Projects	Proportion of Tourism FDI Projects in Latin America and the Caribbean 2013 – 2017
Mexico	161	31,45%
Colombia	59	10,33%
Brazil	53	10,35%
Dominican Republic	43	8,40%
Cuba	35	6,84%
Peru	30	5,86%
Chile	22	4,30%
Argentina	18	3,52%
Costa Rica	11	2,15%
Ecuador	8	1,56%
Panama	7	1,37%
St Lucia	5	0,98%
Jamaica	4	0,78%
Uruguay	4	0,78%
Other	52	10,16%

Source: Fdi Markets, 2022

3.5. Middle East and Africa

Between 2013 and 2021, a total of 442 foreign direct investment projects in the tourism sector were announced in the Middle East and Africa region, representing an investment volume of USD 34.5 billion. In the same period, more than 62,428 new jobs were created in the region. In the Middle East and Africa region, foreign direct investment in the tourism sector increased by 70% in 2021, totaling USD 2.6 billion. In addition, the number of foreign direct investments in tourism rose to 46, an increase of 84% compared to 2020, and the number of jobs in tourism also rose to more than 5,000, an increase of 59% compared to 2020.

The UAE was the leading destination for foreign direct investment in tourism (148) and capital investment (USD 6.8 billion) between 2017 and 2021, each accounting for 31% of the regional total for the Middle East and Africa. In the same period, the UAE also created the most jobs in tourism, more than 12,900, representing a 29% market share in the region. In the period from 2013 to 2021, Morocco and Saudi Arabia ranked second and third in terms of capital investment. Saudi Arabia (9.96%), followed by Morocco with 6.36% of the regional total. The two countries attracted a combined $3.8bn in foreign direct investment in the tourism sector over the five-year period (Fdiinteligence, 2018, 2019, 2022). The United Arab Emirates, Morocco and Saudi Arabia were the three countries that created the most jobs in tourism between 2013 and 2021.

Table 9. Tourism FDI into the Middle East and Africa 2013 – 2021

Year	Capital Investment ($bn)	Total projects	Jobs created
2013	4,7	52	5,396
2014	3,5	37	3,963
2015	1,5	41	3,022
2016	2,7	34	4,588
2017	3,1	36	6,780
2018	6,0	67	11,640
2019	8,9	103	19,200
2020	1,5	26	2,839
2021	2,6	46	5,000
Total	**34.5**	**442**	**62,428**

Source: Fdi Markets, 2022

Table 10. Top Countries in the Middle East and Africa by number of projects 2013 – 2021

Country	Number of Projects	Proportion of Tourism FDI Projects in Middle East and Africa 2013 – 2017
UAE	148	31,36%
Saudi Arabia	47	9,96%
Morocco	30	6,36%
Egypt	30	6,36%
South Africa	23	4,87%
Oman	16	3,39%
Bahrain	16	3,39%
Qatar	10	2,12%
Tanzania	9	1,91%
Tunisia	8	1,69%
Israel	8	1,27%
Nigeria	6	1,27%
Iraq	5	1,06%
Jordan	5	1,06%
Other	**111**	**23,52%**

Source: Fdi Markets, 2022

In the Middle East and Africa region, the UAE was the top destination market for tourism FDI projects in 2021, with a total of 19 projects. It was followed by Saudi Arabia, Marocco, Egypt, South Africa, Oman and Bahrein. The second in terms of capital investment in the Middle East and Africa region was Saudi Arabia which welcomed $518m worth of tourism capital investment in 2021. It created more than 1000 jobs and six FDI projects in the cluster in 2021. The UAE was also the primary source country for tourism investments between 2013 and 2021. The Middle East nation invested in 63 outward FDI tourism projects, equating to 55% of the market share in the region. It was also the top source market for outward capital investment ($3.9bn) and created more than 9000 tourism jobs. The UAE was followed by Qatar for outward tourism capital investment and job creation.

4. CONCLUSION

Foreign direct investments in tourism have emerged as a powerful engine for economic growth and job creation. As countries continue to compete for a share of the global tourism market, fostering a conducive environment for foreign investors becomes imperative. By strategically leveraging foreign capital, nations can unlock the full potential of their tourism sectors, spurring economic development and providing employment opportunities that uplift communities and propel nations toward prosperity. Even if the hotel and tourism industry does not enjoy the same prestige as other, more modern niche industries, its sheer size makes it an extremely valuable sector. According to the United Nations World Tourism Organization (UNWTO), the hotel and tourism industry accounts for 6% of global exports and one in 11 jobs. As data from the Greenfield Investment Monitor fDi Markets shows, investment in hotels and tourism totaled over USD 97.5 billion between 2003 and 2013, attracting more capital than business services (USD 62.9 billion) and pharmaceuticals (USD 58.9 billion). In the same period, investments in this sector created an estimated 38,500 new jobs, twice as many as in the biotech sector. Most new investments in the hotel and tourism sector relate to hotel construction. Companies such as the US hotel giant Marriott International, the French hotel group Accor and the British budget hotel chain Travelodge were among the most productive investors in this sector between 2003 and 2013 in terms of the number of foreign direct investments. But it is not only the hotels that benefit from this flourishing sector. Almost 8,000 jobs created by foreign direct investment in tourism are in sub-sectors such as shared services and customer contact centers. In addition, cross-border investment in the industry creates jobs in other sub-sectors such as design and development, logistics, and retail. From 2013 to 2021, the largest investments in the Asia-Pacific region totaled 103.4 billion, with 996 projects and 187,740 jobs created. Most projects were carried out in China (208), followed by India (119), Singapore and Japan (89). The second largest capital investment in the same period was in Europe, totaling 67.7 billion with the largest number of projects (1317) and 142,423 jobs created. The United Kingdom was the leading destination for foreign direct investment in tourism in Europe between 2013 and 2021 with 285 projects and a market share of 19.57%, followed by Spain with 179 projects and a market share of 12%, and Germany with 171 projects and a market share of 11.74%. Together, the two countries attracted 350 projects and had a market share of 23.74%. Latin America and the Caribbean attracted around 36.6 billion in capital investment with 448 projects and created 158,885 jobs, more than Europe, which recorded more capital investment. The Middle East and Africa attracted 22.2 billion in capital investment with 278 projects and created 62,428 jobs. At 21.5 billion, North America attracted slightly less capital investment than the Middle East and Africa but had more projects than the Middle East and Africa, namely 284 projects with 44,111 jobs created.

Foreign direct investments have emerged as a catalyst for the growth and sustainability of the tourism industry. When managed responsibly, FDI can bring about economic development, job creation, and the enhancement of tourism-related infrastructure.

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