

## FDI IN TOURISM: THE DEVELOPMENT DIMENSION

### BACKGROUND

Many developing countries are looking to tourism and tourism Foreign Direct Investment (FDI) as a promising avenue for economic and human sustainable development. This is a relatively new approach for some countries, and it reflects the rapid rise in tourism in terms of both numbers of arrivals and revenues in recent years. Traditionally the tourism industry was often ranked below manufacturing or agriculture, since it was not seen as a significant or appropriate source of growth.

Today, however, a 'quiet but significant reappraisal' of tourism is taking place, which values tourism as a mean of earning export revenues, generating large numbers of jobs – including for young people and women – promoting economic diversification (including more services oriented economy), helping to revive declining urban areas and cultural industries and opening up remote rural areas. Its related role in contributing to infrastructure investment and development, including finance, transport and telecommunications, is further heightening interest in the sector.

At the same time, tourism has a dangerous 'Achilles heel', including its inherent vulnerability to external shocks against which is difficult for countries to protect themselves. There is also an increasing awareness that sustainability in tourism owes as much to concepts of economic sustainability as well as environmental or social sustainability. If tourism is to provide sustainable benefits, investment must be resilient and it must help to generate jobs in local communities. In this context, there is now growing research on what is called 'pro-poor tourism' that is gaining mainstream support through the donor and development assistance communities.

### OBJECTIVES

Reflecting this context, for the last three years, UN Conference on Trade and Development (UNCTAD) has been conducting a multi-country empirical study of the scale and multi-faceted impact of tourism Foreign Direct Investment (FDI) in developing countries, within the project "FDI in Tourism: The Development Dimension".

FDI - including its facets of capital investment, transfer of technology and access to global markets - is one of the routes through which developing countries can carry out sustainable tourism. A large number of developing countries have placed the attraction of FDI as one of their top economic priorities. However the dynamics of FDI and its implications had been relatively little studied, and there was a gap of empirical information about the extent of tourism-related FDI in the global economy and its overall impact. This is a concern because tourism is an activity that needs to be managed carefully with or without FDI. Because FDI can involve an unusual mixture of high expectations amid special anxieties, UNCTAD aimed to provide much-needed information to help policy-making in countries that wish to benefit more from international investment in tourism.

### ACTIVITIES

UNCTAD's research and policy analysis on this topic has produced the first major study on the development impacts of tourism FDI in more than 20 years. The study includes a global survey of all major hotel groups to quantify their level and modes of investment in transition and developing countries and the factors influencing these. The hotel groups studied comprise more than 10,000 hotels worldwide.

Secondly, with the support of the International Development Research Centre (Canada), in-depth case studies were carried out in developing countries to gain evidence of the trends and impact of foreign direct investment (FDI) and transnational corporation (TNCs) in situ. Each one used the same methodology to enable cross-country comparisons. The countries were selected in order to provide a broad range of experiences – they included landlocked countries, least developed countries (LDCs), small island economies, countries with a long history of FDI and those with a short history, as well as countries with policies that were welcoming to mass tourism and those that followed a more niche oriented strategy.

The study finds that the impact of Tourism Foreign Direct Investment (TFDI) depends greatly on the specific context, including the national policy framework in each country, the corporate policy of investors, and the extent to which TNCs can create linkages with domestic enterprises. Countries that were relatively new to tourism or to tourism FDI experienced very different impacts compared to countries with a long history of openness to tourism and tourism FDI. National policy initiatives therefore should be tailored to specific country needs and resources, and to their position in the tourism industry life cycle. Regional policies also need to be considered in many cases.

The paper concludes that while virtually all developing countries have given a high priority to attracting FDI in tourism, very few have yet to put in place the policies that are needed to benefit as much as possible from it. For international tourism to be 'pro-poor', and for the benefits of tourism FDI to be more fully realised, a much more engaged policy approach is needed.

## **UNCTAD RESEARCH FINDINGS AND INFORMATION:**

- Tourism FDI scale and scope
- Concentration in the tourism investment value-chain
- Why and how international investors choose locations
- FDI compared to domestic investment
- Sustainability and resilience of investment
- The role of south-south FDI
- Management contracts and franchising compared to equity investment
- Impact of FDI on tourism demand, capital accumulation, infrastructure, employment, and skills transfer
- Linkages between international hotel groups and their host countries
- How developing countries can better capture and create value in tourism

## **POLICY ANALYSIS AND RECOMMENDATIONS:**

- Who does what to attract FDI
- What can be done to benefit more from FDI
- The essential role of domestic investment
- Promoting linkages between investors and domestic enterprises

## **FURTHER INFORMATION IS AVAILABLE IN THE FOLLOWING PUBLICATIONS:**

- **FDI and Tourism: the development dimension**  
**Current Studies on FDI and Development No.4**  
UNCTAD/ITE/IIA/2007/5
- **FDI and tourism: the development dimension, East and Southern Africa**  
**Current Studies on FDI and Development No.6**  
UNCTAD/DIAE/IA/2008/6  
([www.unctad.org/en/docs/diaeia20086\\_EN.PDF](http://www.unctad.org/en/docs/diaeia20086_EN.PDF))
- **FDI and tourism: the development dimension, West Africa and selected country case-studies**  
**Current Studies on FDI and Development No.8**  
(Forthcoming 2009)

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