

# Recent Evolutions of the Tourism and Hospitality Industry FDI

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**Abstract:** *The tourism industry has recorded one of the most remarkable increases over the past decade, reaching an impressive ten percent of the world GDP in 2015. In this context, and taking into account people's desire to spend their holidays away from home in famous tourist spots, it is evident this industry becomes an attractive alternative for investors. Whether it is airlines or hotel chains, foreign investments in this sector are increasingly and more visible, although at this point is not at its real potential. This article presents the main destinations according to the stocks of direct foreign investments in tourism, highlighting the most important players according to their sales, profits, assets and market value.*

**Keywords:** *foreign direct investment, FDI stocks, FDI in tourism, tourism market, tourism investment*

**JEL Code:** *D25, F21, L83*

## 1. Introduction

The dynamic noted in the tourism sector in recent decades has turned travel industry into a key element of development? in many countries, representing an important driver of growth (Bulin, 2017). According to the World Tourism Organization (UNWTO, 2016), the business volume in this field came to exceed oil exports, food or cars, reaching the level of 1500 billion dollars in 2015. In the same year, tourism activities generated 10% of world GDP, with a high level of impact on the labour market, with one of eleven employees involved in this sector (UNWTO, 2016).

Tourism is a complex concept that implies a wide range of entities. This means that the transformation of a location with tourist potential into an attractive tourist destination, frequented by domestic and international tourists, requires major changes in infrastructure. A flow of tourists in a location with poor management can have devastating effects, resulting in the increase in pollution to alarming rates, overloading public transport, damaging tourist attractions and even creating a conflicting situation between locals and visitors (Page, 2014).

Sustainable development of areas with touristic interest are requiring significant investments that covers activities such as public transportation, destination marketing, waste management and logistics. However, significant investment involves a high level of capital that local authorities often lack. Infrastructure and access to global distribution system are essential, and because of the local financial issues (United Nations, 2007), FDI is preferred most often (United Nations Environment Programme, 2011). The purpose of these investments is, of course, the gain of significant benefits for all parties involved. The advantages brought by tourism lead to an intense competition between countries as well as between tourist destinations. A study released by Oxford Economics for the World Council of Tourism (WTTC) showed that 86% of the CEOs in tourism that were included in research said that there is a direct link between FDI and the development of

domestic tourism, taking into account all the implications associated with this, including the creation of new jobs. However, tourism potential and attraction uniqueness are not the main arguments for investors, since they are primarily interested in the features there are in an area. The development of air transport is an important factor when deciding to invest (WTTC, 2012).

For a tourism company, the decision of investing in another country is necessary to coincide with the "OLI" rule (ownership, location and internalisation rights). Thus, the company must be able to have certain property advantages, allowing it to compete with other domestic competitors. This is done with the purpose of having a developed internal market, access to cheap labour, a rich cultural heritage, an attractive climate, and also to be able to directly control the activity of the host country (UNCTAD, 2010).

## 2 FDI in tourism

FDI also involves risks for all parties involved, so a trust-based analysis of the target is essential. A.T. Kearney (2016), an important player in the global management consultancy market, with an experience dating back to 1926, draws an annual ranking of countries according to the „*Confidence Index*” regarding Foreign Direct Investment, using a scale of 0 to 2.5 (Table 1). The main factors included in this hierarchy of countries are the size of the internal market, wage level, legislative transparency and low levels of corruption, national security or technological innovation (A. T. Kearney, 2016).

**Table No. 1. The top five countries according to A.T. Kearney  
"Trust Index" in FDI**

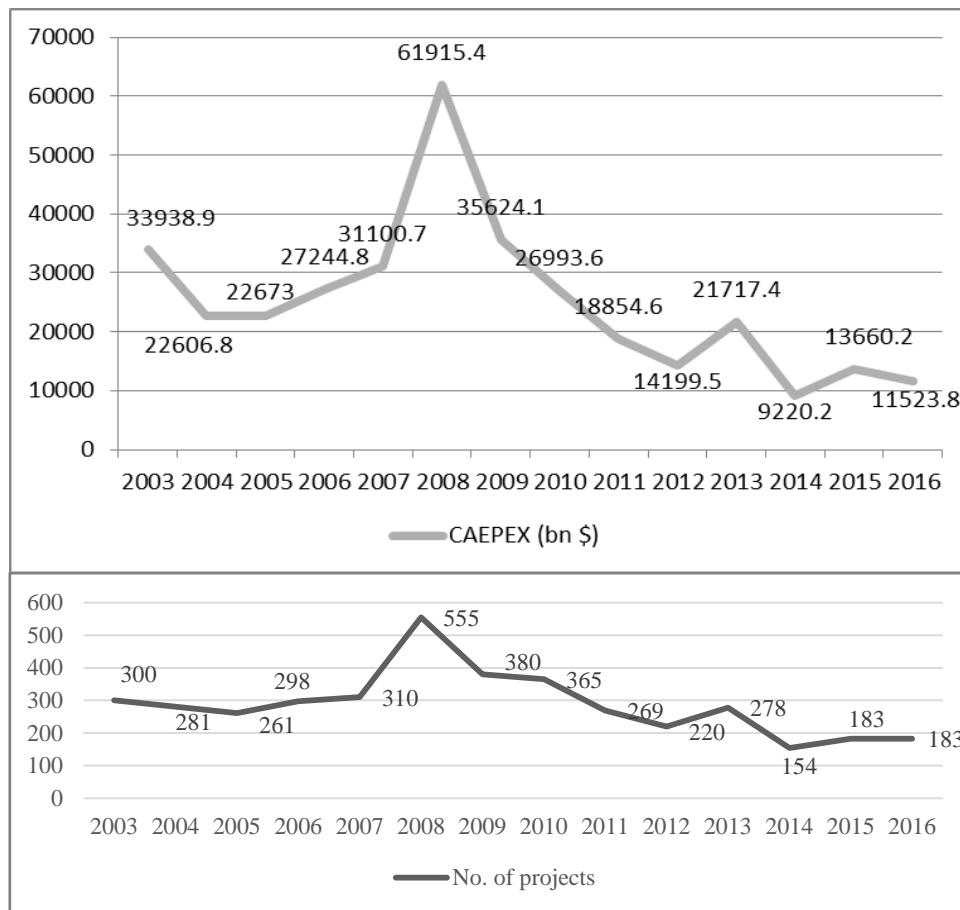
Country	2014	2015	2016	Score (2016)
USA	1	1	1	2.02
China	2	2	2	1.82
Canada	3	4	3	1.8
Germany	6	5	4	1.75
UK	4	3	5	1.73

Source: The 2016 A. T. Kearney Foreign Direct Investment Confidence Index

The analysis of the dynamics for the first five countries according to the "Confidence Index" in 2014, 2015 and 2016 shows that the first two positions of the ranking remained unchanged during this period, being occupied by the USA and China. Next was Canada, which had a slightly oscillating trend, dropping from 3rd place in 2014 to 4th in 2015 and returning to the 3rd place in 2016. Germany and Great Britain were the first European countries that appeared in this ranking. Germany has strengthened its position by climbing one seat each year to the fourth position in 2016, and the United Kingdom dropped from 3rd place in 2014 to 5th in 2016. Regarding the tourism sector, the FDI level worldwide is represented by the following numbers, according to data provided by FDI Markets (2016): 320 projects owned by 172 companies, amounting 23,713 million dollars and generating a total of 51062 jobs. UNCTAD statistics show the level and evolution of cross-border mergers and acquisition volumes. They also show the fields of activity in greenfield projects (Aluculesei & Bulin, 2016).

According to the latest data provided by FDI markets (Shehadi, 2017), in 2016 the volume of foreign direct investment in the global tourist industry amounted to more than 11.5 billion dollars in 183 greenfield projects, and the total for the 2003-2016 period is estimated at a total volume of over 352 billion dollars. Regarding the evolution of greenfield investments in tourism, for the 2003-2016 period, they have alternated with increases and decreases in absolute value (CAPEX, million dollars) and in numbers of new projects. Thus, the maximum for the analysed period was reached in 2008 - 555 projects totalling almost 62 billion dollars, and the minimum in 2014 - 154 projects amounted to less than 10 billion dollars.

**Fig no. 1. Greenfield FDI in hotels and tourism, 2003-2016 – CAPEX (bn. \$), number of projects (no.)**



Source: authors, based on FDI markets data (Shehadi, 2017)

United States of America were the most important source of money for this projects (83 billion dollars), followed by Hong Kong, United Kingdom, Spain, France, United Arab Emirates at a significant distance from the USA with an investment ranging between 28 and 30 billion dollars (Bulin, 2017).

Regarding the destinations for foreign direct investments, we remark countries with a spectacular evolution in tourism for the recent years, like Macao, the country that leads the rankings (8.7 billion dollars) -, Thailand (6.6 billion dollars), but also Morocco, Germany (the only European country in the top) or Qatar (Bulin, 2017).

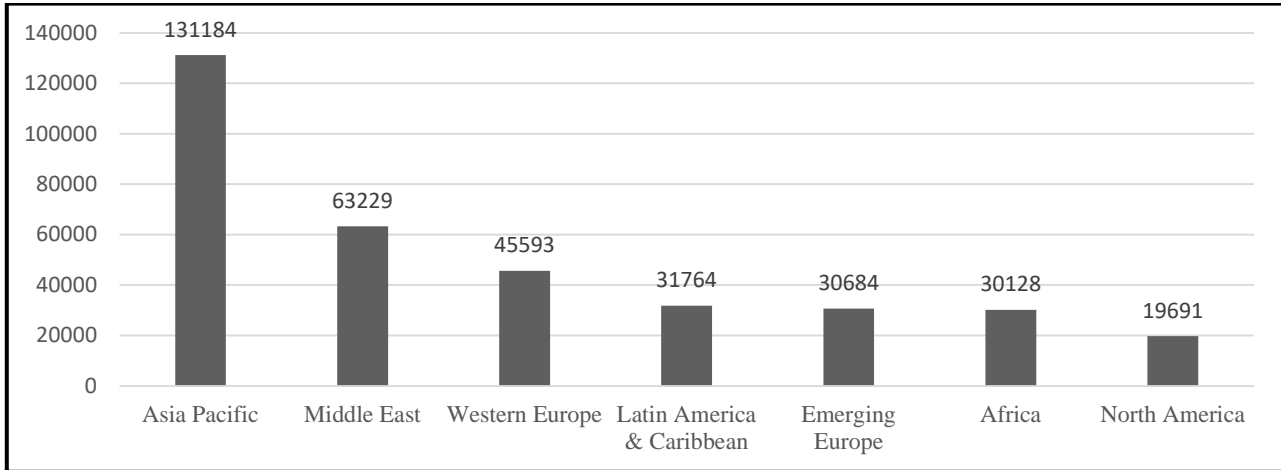
**Table no 2. Top 10 Sources and Destination Countries - Greenfield FDI in hotels and tourism, 2003-2016**

#	Source country	CAPEX (bn. \$)	#	Destination country	CAPEX (bn. \$)
1	USA	83896	1	Macao	8687
2	UK	29514	2	Morocco	8344
3	Hong Kong	28990	3	Germany	8232
4	Spain	28960	4	Qatar	7672
5	France	27519	5	Vietnam	6941
6	UAE	25433	6	Philippines	6688
7	Singapore	13303	7	Thailand	6618
8	Canada	13115	8	Bahrain	5833
9	Belgium	9964	9	Dominican Republic	5815
10	Switzerland	8856	10	Canada	5377

Source: authors, based on FDI markets data (Shehadi, 2017)

For the 2003-2013 period, Asia has proven to be the most attractive region for foreign investors in the tourism sector, which attracted nearly 40% of the total FDI (131 billion dollars).

**Fig. no. 2. Tourism investment by region – Greenfield FDI in hotels and tourism, 2003-2016 (bn. \$)**



Source: authors, based on FDI markets data (Shehadi, 2017)

### 3 Transnational companies: expression of corporatism in the tourism industry

In their expansion, tourism corporations use a wide variety of strategies for development and diversification. In the tourism industry, the most common options for entering foreign markets are represented by direct purchases, mergers, takeovers, joint ventures, management contracts or franchising contracts. Forbes magazine publishes every year, since 2003, a list of the world's most powerful companies - Forbes Global 2000. The company's position in Forbes hierarchy is given by a coefficient calculated by four equal in terms indicators: company sales, registered profits, total assets and market value.

According to Forbes, in the tourism industry, including here the operators for large hotels chains and other accommodation services (e.g. cruise ships), excluding those for food, the ranking is led by Carnival, a known American luxury cruise operator (Table 3). It worth mention that Carnival is in the first position for three indicators (sales, assets, market value), while the Asian company Genting Hong Kong it is on the first position for the profit indicator - for example, last year reported a profit of 2.1 billion dollars.

**Table no. 3. The top 10 corporations in the hospitality industry, 2015**

#	#global	Company	Country	Sales	Profit	Assets	Market value
1	311	Carnival	USA	\$15.8 B	\$1.9 B	\$38.4 B	\$37.8 B
2	476	Hilton Worldwide Holdings	USA	\$11.3 B	\$1.4 B	\$25.7 B	\$21.4 B
3	724	Royal Caribbean Cruises	USA	\$8.3 B	\$666 M	\$20.9 B	\$15.9 B
4	777	Marriott International	USA	\$14.5 B	\$859 M	\$6.1 B	\$16.9 B
5	1164	Shenzhen Overseas	China	\$4.1 B	\$715 M	\$16.2 B	\$8.6 B
6	1185	Oriental Land	Japan	\$3.9 B	\$616 M	\$6.5 B	\$25.7 B
7	1214	Starwood Hotels	USA	\$5.8 B	\$489 M	\$8.3 B	\$13.4 B
8	1252	Wyndham Worldwide	USA	\$5.5 B	\$611 M	\$10.2 B	\$8.5 B
9	1287	InterContinental Hotels	United Kingdom	\$1.8 B	\$1.2 M	\$3.8 B	\$9.5 B
10	1588	Accor	France	\$6.2 B	\$230 M	\$9.7 B	\$10.8 B

Source: table made by the authors based on data provided by Forbes Global 2000, 2016

Analysing the rankings, we find the following:

- The global hierarchy is dominated by companies headquartered in the United States - the first 4 positions being occupied by them: Carnival, Hilton Worldwide Holdings (which operates brands like Hilton), Royal Caribbean Cruises (cruises operators and they are associated with TUI -

German tour operator, in a joint venture company); Marriott International (which operates hotel chains like JW Marriott or The Ritz-Carlton). Moreover, 6 out of 10 top companies are American, Starwood Hotels and Wyndham Worldwide being on 7th respectively 8th position.

- Although the largest companies in the world are Chinese, only Shenzhen Overseas tourism has made its way among industry giants;
- Despite the fact that Europe is the most important international tourist destination, the only European companies in the top 10 are InterContinental Hotels – United Kingdom and Accor - France;
- The worldwide positions of companies from tourism industry are not remarkable, for example, Carnival is only on 311th in the top transnational companies.

It should be noted that Forbes ' rankings do not include in the analysis the most important event of the year 2015 in the hospitality industry: the acquisition of Starwood Hotels & Resorts Worldwide by Marriott International, a transaction estimated at 12.2 billion dollars. Thus, we note the creation of the world's largest hotel company, with over 5,000 hotels in more than 100 countries, and a total of more than 1 million rooms available, offered thru 39 brands – 11 of Starwood and 19 of Marriott (Table 4). This transaction leads to the appearance of a new undisputed leader worldwide in the hospitality industry. In the top 10 hotel chains we can find another newly formed group - Jin Jiang International / Plateno Hotels Group (both Chinese companies), ranked on 5th position. The latest transactions confirm the strong pace that characterises the tourism industry in general and the hotel industry in particular.

**Table no. 4. Major hotel groups, 2015-2016 (available capacity)**

#	Company	Available capacity	
		Numbers of hotels	Rooms
1	Marriott International / Starwood Hotels / Resort Worldwide	5456	1071096
2	Hilton Worldwide Holdings	4480	737922
3	Intercontinental Hotels Group	4963	726876
4	Wyndham Hotel Group	7760	671900
5	Jin Jiang International / Plateno Hotels Group	6000	640000
6	Choice Hotel International	6379	504357
7	Accor Hotels	3815	500366
8	Best Western Hotels & Resorts	3903	303768
9	Homeinns Hotel Group	2787	311608
10	Carlson Rezidor Group	1092	172234

Source: <http://www.hotelnewsnow.com/Articles/28560/The-10-largest-hotel-companies-by-room-count>

Food services sector constitutes another component of the tourism industry, which is reinforced by the dominant presence of large transnational companies in this sector of activity. Thus, according to Forbes hierarchy, among the world top 2,000 companies from all sectors of activities we find eight of the major food service providers (Table 5).

**Table no. 5. Top worldwide corporation hierarchy in the food service sector for 2015**

#	#Global	Company	Country	Sales	Profit	Assets	Market value
1	189	McDonald's	USA	\$25.4 B	\$4.8 B	\$37.9 B	\$110.1 B
2	389	Starbucks	USA	\$20.2 B	\$2.5 B	\$12.9 B	\$85.3 B
3	467	Compass Group	United Kingdom	\$27.2 B	\$1.3 B	\$13.3 B	\$28.9 B
4	649	Yum Brands	USA	\$13.1 B	\$1.3 B	\$8.2 B	\$33.1 B
5	1197	Restaurant Brands International	Canada	\$4.1 B	\$513 M	\$18.4 B	\$9.2 B
6	1370	Chipotle Mexican Grill	USA	\$4.5 B	\$476 M	\$2.7 B	\$13.1 B
7	1413	Whitbread	United Kingdom	\$4.3 B	\$586 M	\$6.3 B	\$10.2 B

8	1509	Darden Restaurants	USA	\$7 B	\$341 M	\$4.5 B	\$8 B
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Source: [http://www.forbes.com/global2000/list/#header:position\\_industry:Restaurants](http://www.forbes.com/global2000/list/#header:position_industry:Restaurants)

We notice the achievements of the American giant McDonald's, ranked on the 189 position worldwide, which has better financial results than the companies from the hospitality industry. On the second place, we find the coffee chain Starbucks, which has almost 25,000 locations and 250,000 employees worldwide. The podium is completed by Compass Group from the UK, a catering company which offers catering services to the private and public sector (schools, hospitals, other institutions). McDonald's leads the ranking for three of the four indicators, while Compass Group registered the biggest sales last year. As for the hotel industry the, the hierarchy for food services industries is dominated by US companies, along with other companies from United Kingdom and Canada: Yum Brands, which owns, among others, the fast food chain KFC, Chipotle Mexican Grill, a fast-food chain which serve Mexican food with locations in the UK, Canada, Germany or France, and respectively Darden Restaurants, a multi-branded food service operator.

## 4 Conclusion

Although global FDI in the tourism industry is not spectacular (320 projects, 172 companies involved, about 23 billion dollars and 51 thousand jobs), one can note the expansion of destinations. In the European Union, which is the most important international tourist destination, the number of FDI "greenfield" investment projects and the volume of stocks or cross-border transactions do not attract attention by volume or weight. Taking into account the favourable evolution in international tourism (sustained rates of growth in tourist arrivals in recent years, including overcoming the barrier of one billion international tourists in 2013), we believe that there is an important untapped potential for major global economic players. In support of our statement are the financial results and the dynamics of the hotel sector, dominated by the big international chains.

The limits of our research are the low availability of statistical data, their complexity and the existence of some inconsistencies. As there is a causal relationship between the development of tourism and the evolution of air transportation, a possible future direction of this research is the analysis of this sector of activity about the tourism industry.

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