UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

FDI in Tourism:
The Development Dimension

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Current Studies on FDI and Development

The UNCTAD Series on *Current Studies on FDI and Development* was launched in 2005. It aims to contribute to a better understanding of transnational corporations and their activities, and especially their impact on development. The series also aims at stimulating discussion and further research.

Titles in the series include:

1. UNCTAD (2005), *TNCs and the removal of textiles and clothing quotas*. (New York and Geneva: United Nations).
2. UNCTAD (2006), *Measuring restrictions on FDI in services and transition economies* (New York and Geneva: United Nations).
3. UNCTAD (2007), *The universe of the largest transnational corporations* (New York and Geneva: United Nations).
4. UNCTAD (2007), *FDI in Tourism: The Development Dimension* (New York and Geneva: United Nations).
5. UNCTAD (2007), *FDI, tourism and developing countries - Selected developing country case-studies* (New York and Geneva: United Nations).
6. UNCTAD (forthcoming), *FDI and tourism: Southern and Eastern Africa, selected developing country case-studies* (New York and Geneva: United Nations).

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Abbreviations

ASEAN	Association of Southeast Asian Nations
BIT	bilateral investment treaty
BOP	Balance of payments
CIS	Commonwealth of Independent States
CSR	Corporate social responsibility
EAC	East African Community
ECLAC	Economic Commission for Latin America and the Caribbean
ESA	East and Southern Africa
FDI	Foreign Direct Investment
FTA	free trade agreement
GATS	General Agreement on Trade in Services
GDP	gross domestic product
IDRC	International Development Research Centre (Canada)
IFC	International Finance Corporation
IIA	international investment agreement
ILO	International Labour Organization
IPA	investment promotion agency
ITC	International Trade Centre
LAC	Latin America and Caribbean
LDC	least developed country
M&A	merger and acquisition
MIGA	Multilateral Investment Guarantee Agency
NAFTA	North American Free Trade Agreement (Area)
NGO	non-governmental organization
ODI	Overseas Development Initiative (UK)
OECD	Organisation for Economic Co-operation and Development
OLI	Ownership/Location/Internalisation (determinants of FDI)
OMT/WTO	World Tourism Organization (now UNWTO)
PPP	Public private partnerships
R&D	research and development
SEE	South-East Europe
SME	small and medium-sized enterprise
SOE	State-owned enterprise
TFDI	Tourism Foreign Direct Investment
TNC	transnational corporation
TSA	Tourism Satellite Account
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre for Transnational Corporations
UNECA	United Nations Economic Commission for Africa
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNWTO	United Nations World Tourism Organisation
WTO	World Trade Organization
WTTC	World Travel and Tourism Council

Executive summary

Reappraising tourism and tourism-related FDI as a vehicle for development

Many developing countries are looking to tourism as a potentially promising avenue for economic and human development. This is a relatively new position for some countries, and reflects the rapid increase in tourism in terms of both numbers of arrivals and revenues for several economies in recent years. Traditionally, tourism was placed below manufacturing or agriculture, since it was not seen as a significant or appropriate source of growth. In contrast, today, a "quiet but significant reappraisal" is taking place, which values tourism as a potential means of earning export revenues, generating large numbers of jobs – including for young people and women – promoting economic diversification and a more services-oriented economy, helping to revive declining urban areas and cultural activities, and opening up remote rural areas. For example, there is now growing research on what is called "pro-poor tourism" that is gaining mainstream support through the donor and development-assistance communities.

FDI is one of the routes through which developing countries can carry out tourism, but the dynamics of FDI in this dynamic sector, and its implications, have been relatively little studied. There is very little empirical information about the extent of tourism-related FDI in the global economy or its overall impact. Because tourism is an industry that needs to be managed carefully, with or without FDI, and because FDI poses special challenges and concerns, this report aims to provide information and analyses that will assist policy-makers to design policies that most support their development objectives and strategies.

Tourism is a far-reaching and cross-cutting activity

A significant part of tourism's development potential stems from the fact that it links together a series of cross-cutting activities involving the provision of goods and services such as accommodation, transport, entertainment, construction, and agricultural and fisheries production. Its industry structure encompasses a wide diversity of players, ranging from global TNCs to small and medium-sized enterprises (SMEs). This enables participation in the industry at a number of different scales and levels of the market. In addition, the fact that the consumer comes to the producer, rather than the other way around, enables even the smallest transaction to be part of the global economy: every sale to a tourist, be it a fruit or a haircut, represents an export. This constitutes an important opportunity, particularly for small enterprises that would otherwise find it difficult to break into the global supply chain. If it is organized properly, tourism should offer significant opportunities for poverty reduction through its income-generating and job-creating effects alone.

On the other hand, tourism is a sensitive sector that is vulnerable to external shocks – economic, environmental and political – as well as potentially creating problems of its own. Its cross-cutting nature can also entail potential social and economic costs to communities and to the environment. Its employment potential is not always best exploited: wages can be low and human resources practices generally need to be improved. Tourism has also been associated with unsavoury or even criminal activities, or more generally with an undermining of traditional values. Even without such problems, there is a sense in many developing countries that tourism has failed to bring the expected benefits. Its adverse impacts on communities can be drastic, and need to be weighed carefully against its potential benefits. For developing countries, the lesson is that tourism needs to be managed carefully if it is to yield the desired benefits without undermining the local economy and the environment, social traditions and cultural resources.

Tourism is still relatively "unglobalized"

Contrary to common perceptions, one finding of this study is that FDI in tourism is relatively low, compared to other globalized activities (including services such as telecommunications or finance), and compared to domestic investment. FDI exists in only a small number of the many diverse activities that comprise what could be called the "international tourism economy". The main investments are in hotels and restaurants, with little FDI in airlines (although this is growing) and in high profile and important activities such as tour operations or global reservation systems. Tourism accounts for no more than 1 or 2 per cent of total outward FDI stocks from the largest source countries; and an even smaller proportion of total inward FDI stocks for the largest host countries. Reflecting this, tourism does not have as many global mega corporations as in other sectors.

Tourism-related FDI is also largely concentrated in developed countries. Even though it has been growing fast, it is estimated to be as little as 10 per cent in developing countries. These two findings are somewhat at odds with the above-mentioned perception that tourism-related FDI is extensive, and even that it dominates the tourism industry in developing countries.

However, although the amounts in dollar terms may be small, this does not mean they are insignificant. Firstly, national accounts data on tourism-related FDI are likely to underestimate the true extent of TNC activities, where managerial contracts rather than equity ownership is increasingly important. Secondly, these relatively small capital flows, coupled with non-equity TNC presence, can have a significant impact, especially in developing countries that are relatively new to international tourism. For these reasons, our study examined the effects of TNC activity in its broadest sense, rather than on the basis of the narrower definition of equity presence only. Thirdly, the indications are that tourism-related FDI and TNC activities are likely to increase significantly in the medium term, in virtually all developing regions.

Regional trends for developing countries are uneven

Data on the location of tourism-related FDI or TNC activity are limited, but it appears that the distribution is rather uneven among regions. On the basis of national accounts data from the two largest sources of tourism-related outward FDI that provide such information (the United Kingdom and France), Latin America and the Caribbean and Asia dominate as recipient developing regions, while Africa and the Pacific receive very little of such FDI. These findings are supported by an UNCTAD survey of TNC hotels with a presence in developing countries, which confirms that Latin America is the single largest recipient of tourism-related FDI; around one quarter of all hotels in developing countries located in that region. South, East and South-East Asia, the transition economies of Europe, and North Africa share second place, accounting for 13 to15 per cent of the total number of TNC hotels, followed by Southern and sub-Saharan Africa, Central and Eastern Europe and West Asia. Central Asia and the Pacific each accounted for less than 1 per cent of the total number of hotels.

It is possible that these proportions may change over the next five years. The survey asked TNCs about their future investment plans and the highest percentage of expansion plans (over 50 per cent) were in South, East and South-East Asia, as opposed to Latin America, where "only" 50 per cent of the firms reported that they planned to increase their stock of hotels. It was notable, however, that every respondent answered that they planned to increase their portfolio of hotels, with no respondent planning to "decrease" or "make no change". On the basis of this evidence, it is expected that tourism-related FDI should increase worldwide.

Reasons for choosing a particular location

Clearly the localization decisions of hotels depend on the extent of tourism demand for a specific destination, as well as its specific tourism-related assets (e.g. nature, culture). But the presence of a TNC hotel can also boost tourist demand; indeed, the interconnected relationship between investors and tourist arrivals can be difficult to disentangle, especially if attempted years after the process first began. From the TNC perspective, responses to the UNCTAD survey indicated that demand from developed-country tourists is the single most important factor, although demand from developing countries is also increasingly important. During interviews, a number of TNC chief executives cited the growth of domestic demand for business and recreational travel in China and Africa, for example. Interestingly, only a small number of hotels reported that government policies and incentives for FDI had been an important determinant in their location decision. However, respondents also said that economic size and growth rates were also important reasons for their choice of location, and this could be indirectly affected by government policies and incentives for FDI.

Modes of investment vary

Privatisation was a significant driver of FDI in many developing countries in the 1990s, and there continue today to be pockets where investment still occurs through privatization. However, in most cases the State has now significantly withdrawn its role. Greenfield investment is likely to be particularly important, unlike in other areas of an economy where entry through mergers and acquisitions (M&A) is more prevalent. This is supported by evidence that more than 70 per cent of all new greenfield hotel projects during the period 2002-2005 (the latest years for which data is available) were located in those countries.

The rise of South-South investment

The largest source countries of outward FDI in tourism have long been the United States, the United Kingdom, France and Canada, but a new trend, which is gathering pace, is the rise of South-South investment. As in other sectors of the global economy, a number of TNCs from developing economies are becoming active on the world tourism scene. At present these TNCs are from economies such as Singapore, Hong Kong (China) and the United Arab Emirates; other source economies from the South include Cuba, Malaysia, Poland, South Africa and Mauritius. For many developing countries, especially the least developed, investors from the South may represent an extremely significant source of new investment, capital and expertise. And not only are they investing in these emerging destinations, they are also establishing a presence in some of the oldest and most established tourist destinations in the world, including London and New York.

TNC activity is greater than the FDI data suggest

One reason that the level of FDI is lower than expected is that, although there may be a foreign brand name on a hotel, in the majority of cases this is not accompanied by equity capital. TNCs have been reducing their equity involvement in hotels in developed countries (*WIR05*), and, increasingly, there is little reason to assume that in developing countries just because a well-known brand runs a hotel that it also owns it. The UNCTAD study found evidence that of the total number of TNC hotels located in developing countries, 80 per cent are under non-equity arrangements such as management contracts, franchises or leases. Only in 20 per cent of the cases do TNCs have an equity stake, of which approximately half are joint ventures and the other half wholly-owned. Another interesting new finding was that equity investment occurs more frequently in LDCs than in developing countries in general, in part because of the lack of potential local partners.

Evidence also indicated that TNCs from developing countries are more likely to make equity investments in developing-country hotel operations than TNCs from developed countries. This may be an important finding for countries that wish to attract equity capital in addition to non-financial assets, such as managerial expertise, brand name and marketing reach.

The impact of tourism-related FDI: key findings

The impacts of tourism-related FDI – both positive and negative – are numerous, complex and nuanced. This report aims to evaluate its impacts in a number of key areas:

Impact on demand patterns. Tourism-related TNCs were found to put host countries on the map, and foreign brands have further enhanced their image as tourist destinations (e.g. in Bhutan and the United Republic of Tanzania). In a potentially volatile industry, TNCs can be more robust and stable than local firms and thus help ensure the stability (and confidence in) of an economy. On the other hand, TNCs can perpetuate a country's poor image as a low-quality, mass-market destination (e.g. the Dominican Republic). They are also occasionally fickle, moving out – partly or entirely – on the basis of changing international tourism trends and demand patterns (as evidenced, in the report, by a number of hotels leaving Tunisia with little forewarning).

Impact on capital, technology and skills formation. Apart from LDCs and new markets, the financial contribution of tourism-related TNCs is relatively small in most developing economies, especially because much of their involvement takes non-equity forms. Despite the expectations of some host governments, they are not likely to assist in the development of infrastructure. However, they can introduce a diverse range of new technologies and skills into an economy, including advanced management, environmental and financial systems. These improve the productivity and sustainability of the sector and economy and, potentially, lead to beneficial spillovers to other firms and sectors; such spillovers are hard to quantify, but examples include the diffusion of knowledge and skills through staff movement to local firms, as well demonstration effects. Similarly, TNCs can help raise standards through advanced systems and quality control, though some have perpetuated low standards, inherent in some forms of mass tourism. TNCs can also help diversify the product in some destinations (e.g. from mass to differentiated tourism), which can lead to innovative responses from local firms. Having said this, local firms are not passive recipients, and in some cases examined in the report (e.g. in Kenya and Tunisia), they are as likely to innovate or set standards as foreign ones.

Impact on human resources. In addition to skills formation (including a wider diversity of skills), tourism-related TNCs generate employment and, in some cases, they generate proportionally more employment than local firms. Though contrary examples exist, TNCs often pay higher wages and offer a better package to employees than local firms. However, in more mature destinations or those with a history of public investment in training, such as Kenya, these distinctions between TNCs and local firms are less marked or absent.

Impact on local firms. Tourism-related TNCs make an effort to establish linkages with local suppliers and distributors, sometimes to a greater degree than equivalent local firms, which generates economic activity and business opportunities. Although there is little evidence of TNCs crowding out local firms (e.g. in the hotel industry foreign and domestic enterprises provide complementary services, often catering to different categories of customers), this can occur. For example, in one case in Tunisia when both foreign and local firms had access to government-subsidized loans, local investors were crowded out. TNCs can potentially provide positive impacts through competitive and demonstration effects, but only limited examples of these were found.

Balance-of-payments impacts. There was little evidence that tourism-related TNCs are more likely to have a negative impact on the balance of payments than local firms. Imports of foreign produce seem to be more related to the market segment than ownership per se. TNCs do repatriate profits, but at the same time they boost tourist arrivals and hence foreign exchange earnings considerably (though some of the revenues generated by international tourists remain in their country of origin). Expatriates repatriate some of their earnings, but are also employed by local firms (for the skills they bring). Overall, the picture is mixed; but there is much a government can do to ensure that any negative balance-of-payments impact is minimized.

While tourism offers many opportunities, it can also lead to a number of costs, whether foreign investment and TNCs are involved or not. Not least, 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, the overall approach has to be carefully considered. Excessive reliance on a single sector – no matter how broad and cross-cutting – is always unwise.

Policy Implications

In recent years many countries, particular developing ones, have become more open to tourism-related FDI. This represents a sea change, as previously – especially in 1960s and 1970s – foreign involvement in a country's tourism industry was frowned upon. Even local private firms were often excluded from segments of the industry, with State-owned tourist facilities, including hotels, not uncommon; today, this is relatively rare. Today, tourism has arguably fewer FDI restrictions in developing countries than many other economic activities; indeed it is often actively promoted. This proactive stance takes the form of both "soft" policies, such as government support for trade fairs and maintenance of tourism Internet sites, and "hard" measures, which include providing incentives to foreign investors. However, there is surprisingly little information about the use of such mechanisms, and it is an area that would benefit from further research.

The potential benefits to be gained from attracting global hotel chains will be limited if a host country does not have in place a wider policy framework to make the most of the opportunities (e.g. by encouraging the establishment of local firms capable of taking advantage of the transfer and diffusion of technology and expertise) and minimize any costs. To take full advantage of FDI as a catalyst and a complement to domestic investment, a coherent and integrated policy framework is essential. But this is not simple as tourism is a cross-cutting and interlinking activity, with a long value chain that involves the provision of services by many providers – private and public; the number and range of policies that need attention are large, far-reaching and diverse.

Policies to enhance the net benefits of tourism investment

One way to boost the *creation of net value* in tourism in host locations is to increase the revenue spent by tourists at a destination – a subtly different proposition from simply increasing tourism numbers. The kinds of policies that help achieve this exert their influence indirectly rather than directly, but this does not make them any less important. For example, they include policies that have the effect of increasing tourists' length of stay in a host country, increasing total expenditure by increasing the average number of 'bed-nights'; encouraging them to spend more on cultural activities (museum fees, hiring tour guides, buying handicrafts), or encouraging tourists to purchase higher quality (for example, more employment-intensive or higher value-added) goods and services. The extent to which tourism-related TNCs might be involved in this will depend on circumstances. For example, an LDC with cultural assets for tourism but not the capital or experience required might require TNC equity involvement just to get this type of tourism started; on the other hand, a middle-income developing-country government with similar assets might have less need of capital investment and rather encourage the transfer of skills through non-equity forms of TNC participation such as management contracts.

Such issues lead naturally to a discussion of policies that can help the domestic economy increase its share of what is created, as opposed to the share accruing to foreign investors or foreign operators. Policies that can increase the breadth and value of linkages may be needed, to help local enterprises to offer the range of goods and services that hotels will buy, and hence reducing hotels' reliance on imports. Strong ties and linkages may also encourage the transfer of knowledge, technology and skills. Related policies include the promotion of appropriate supply capabilities and standards in relevant agricultural, manufacturing and service industries. As with value-creating policies, the list of potential initiatives can be a long one, reflecting the cross-cutting and extended value chain that is associated with tourism. It offers many opportunities for local actors – as well as TNCs – to take part at many levels and scales within the industry.

Future developments in tourism FDI

International tourism is – and will remain – a rapidly growing industry, with many opportunities for profitable gain. Given this, it is likely that tourism-related TNCs will continue to extend their activities in both absolute and relative terms, more in some activities than in others. The role of TNCs from the South is also set to increase, with implications in terms of more intense competition, higher levels of South-South tourism-related FDI, and larger numbers of new tourists from countries such as Brazil, China, Malaysia, West Asia and the Russian Federation. The possible effects of these trends require further investigation so that developing countries can devise appropriate policies to take advantage of emerging opportunities and to mitigate the effects of adverse developments.

This monograph is based upon research and policy analysis conducted by UNCTAD from 2005 to 2007 (box I).

Box 1. The UNCTAD project, FDI in Tourism

In 2005, UNCTAD launched the research and policy analysis project, *FDI in Tourism* to collect and analyse information about the role of TNCs in global tourism. Themes included the extent of TNC activity; the role and implications of non-equity compared to equity modes of participation; South-South tourism and investment; and the linkages between hotel groups and their host countries. The project aimed to provide much-needed information to help policy-making in countries that wish to benefit more from international investment in tourism.

UNCTAD first conducted a survey of hotel groups to quantify their level and modes of investment in transition and developing economies, and the factors influencing these. The survey was based on a questionnaire sent to the world's leading hotel groups that had at least one hotel in a developing country or transition economy. It included questions about investment trends and the reasons why one form was chosen over another, as well as about location (e.g. why one country might be selected over another). Further questions related to procurement and linkages with the local economy.

Second, a number of in-depth country studies were conducted to gain evidence of the trends and impact of FDI and TNCs *in situ*. Each used the same methodology and questionnaires to enable cross-country comparisons. The approach compared domestically owned hotels with foreign-owned hotels and enterprises in the same activity and of similar quality. Questions were asked about employee numbers, salaries, training and other human resource policies, and also about procurement linkages, imports of goods and services, use of expatriates and financial arrangements.

The countries were selected with the aim of gathering a broad range of experiences. They included landlocked countries, LDCs, 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 countries covered were: Bhutan, the Dominican Republic, Kenya, Morocco, Sri Lanka, Tunisia and the United Republic of Tanzania. In some instances countries share similar sources of comparative advantage in tourism but different policy histories, and hence offer an opportunity to partially isolate the contribution of FDI or of different policy stances. Since UNCTAD began this project, the International Development Research Centre (IDRC) of Canada has generously supported parallel research in East and southern Africa. (This related work will be reported by UNCTAD in a separate publication.)

This UNCTAD study is the first comprehensive and systematic investigation of its kind. We were assisted in our research by governments, investment agencies, public and private sector institutions, and local and foreign investors who generously gave their time and shared their experience with us in interviews and follow-up discussions, and by providing data.

More detailed information about the project and its methodology are described in subsequent chapters.

Chapter I

Introduction: The Potential of FDI in Tourism

Many developing countries today are looking to tourism as a potentially promising avenue for economic and human development. This perception is relatively new for some if them, and reflects the rapid increase in tourism arrivals, numbers and revenues for many developing countries in recent years. Traditionally, tourism has been given lower priority than agriculture or manufacturing since it has not been considered a significant or appropriate source of growth. 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 urban areas and cultural activities, and opening up remote rural regions. Foreign direct investment (FDI) is one of the vehicles through which developing countries can develop their tourism sector; but the dynamics of FDI and its implications in this growing sector have been relatively little studied. Because tourism is an industry that needs to be managed carefully, with or without FDI, and because FDI in this activity presents special challenges and concerns, this publication aims to provide information and analysis that should help policy-makers design policies best able to take advantage of the opportunities it offers while minimizing its costs.

This chapter serves to position FDI in tourism within the general landscape of tourism in developing countries that is taking place with or without FDI. It shows that tourism is an extremely complex economic activity, which requires developing countries to steer a careful path between its positive and negative impacts (box I.1). Section A describes some of the potential benefits of tourism to host countries, including, for example, its capacity to generate large numbers of jobs and export revenues. It also highlights the significant reappraisal taking place with regard to tourism's potential ability to benefit poor countries and poor people. Section B introduces the question of FDI and tourism, describing some common perceptions and misperceptions. Section C considers the topic in a larger historical and development context to reveal the uncomfortable mix of hopes and fears that tend to characterize developing countries' experiences; and section D introduces the UNCTAD research and policy analyses that have contributed to the findings presented in this monograph.

Box I.1. Tourism development as a balancing act between positive and negative effects

Tourism is an extremely complex and significant economic activity that sometimes appears to have as many detractors as supporters. It is questioned whether it is good for developing countries or harmful. This ambiguity is in many ways associated with the wider questions concerning industrialization of traditional societies, modernization, globalization and development. The purpose of this monograph is not to analyse the impact of tourism in an abstract sense, but to start from the premise that it offers a mixture of positive and negative effects to which FDI can further contribute, also with positive and negative consequence.

The task facing countries that wish to enter this relatively new sector is to put in place measures that accentuate its positive and minimize the negative effects. By attempting to provide an assessment of tourism-related FDI, this monograph aims to help countries better achieve this. In addition to new and original research, it draws upon previous UNCTAD work relating to the role of FDI in development, including the increasing importance of the services sector (UNCTAD 2004), promoting linkages (UNCTAD 2001), and the development impact of FDI (UNCTAD 1999a), in addition to other UNCTAD analyses.

A. The potential of tourism for developing countries

Today, tourism, broadly defined, is the world's largest industry. It links together a series of cross-cutting activities involving the provision of goods and services, from accommodation, transport and entertainment to construction, agriculture and fisheries (box I.2). The industry structure encompasses a wide diversity of players ranging from global transnational corporations (TNCs) to extremely small enterprises, hence potentially enabling a number of different scales and levels in the market to participate in the industry.

Tourism's economic potential, as one of the world's fastest growing industries, is already being harnessed in many developing countries and in newer or emerging economies and regions (figure I.1). Not all of this tourism is international or North-South travel as is commonly assumed; regional and South-South tourism is also growing rapidly, opening up new opportunities for tourism service providers in developing countries.

Box I.2. Tourism as a far-reaching and cross-cutting activity

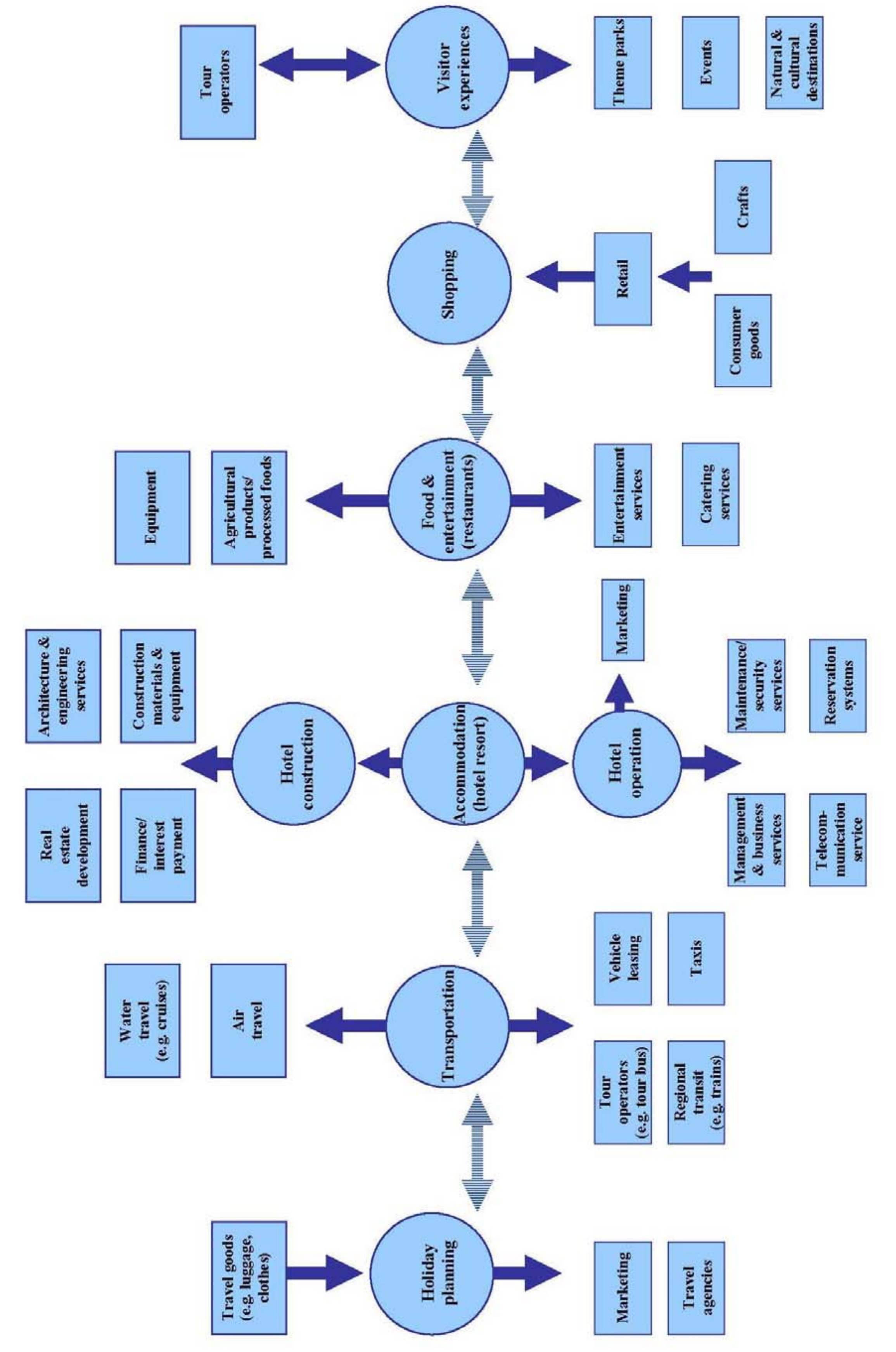
Tourism is not a single activity; it is an agglomeration of many separate and related activities that include transport, accommodation, food and beverage services, cultural entertainment, conventions and trade fairs, sports and recreation (box figure I.2.1). In addition, activities that are critical to the success of tourism include financial services, telecommunications, health services and others, such as energy, water, security and law and order. All of these far-reaching activities come together in the production and consumption of tourism.

Taking hotel accommodation as one possible core activity of tourism production and consumption, backward linkages established by hotels include those with suppliers of inputs that are needed for immediate consumption, such as meat and fish, dairy produce and vegetables and beverages. Backward linkages also establish longer term relationships such as with construction companies and manufacturers of equipment, linen and uniforms. When these goods are produced locally they can have a powerful effect on improving the value-added in the host country, through consumption multipliers and through multipliers associated with the value chain. There are also important forward linkages that include, in addition to hotels, the production of goods or services used by tourists, such as handicrafts, shopping, musical performances, spa or health treatments and the employment of tour guides. Some commentators have argued that improvements in the depth and added value of a well-managed tourism strategy can also translate into economy-wide improvements in private sector investment and growth, via an improved business climate and market discipline (MIGA, 2006).

These services can be put together individually by each tourist, or they can be created as a package by tourism intermediaries that provide wholesale or retail services (such as tour operators or travel agents and local government agencies). The more that such local forward and backward linkages exist, the deeper can be a country's tourism economy, and the less it will rely upon imported inputs. If a country combines this depth with creativity and innovation, its economy can become more differentiated and more competitive vis-à-vis other destinations.

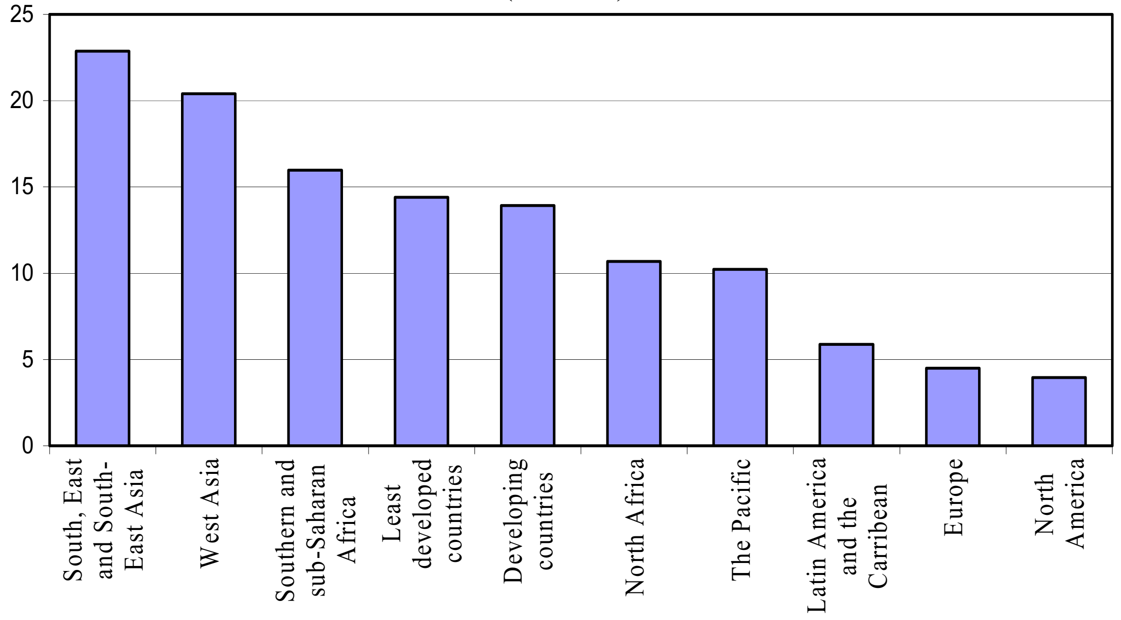
Source: Gollub, Hosier and Woo, 2003.

Box figure 1.2.1. Tourism value chain



Source: Gollub et al. (2003).

Figure I.1. Annual average increase in tourism arrivals, 1985-2004
(Per cent)



Source: UNCTAD, based on data provided by the World Travel and Tourism Council (WTTC), 2006.

Reflecting this growth, tourism is the one service sector in which African countries have a trade surplus (table I.1), and the sector is now worth more in terms of export revenues than traditional commodity-based or manufactured exports in many countries (figure I.2). In South Africa, for example, tourism-related sales abroad earn more foreign exchange than do exports of gold. Similarly in the United Republic of Tanzania, export earnings from tourism exceed those of either gold or agriculture (UNCTAD 2007a). More generally, tourism services are the primary export for one third of developing countries and the main source of foreign exchange for almost all least developed countries (LDCs) (WTTC 2006).

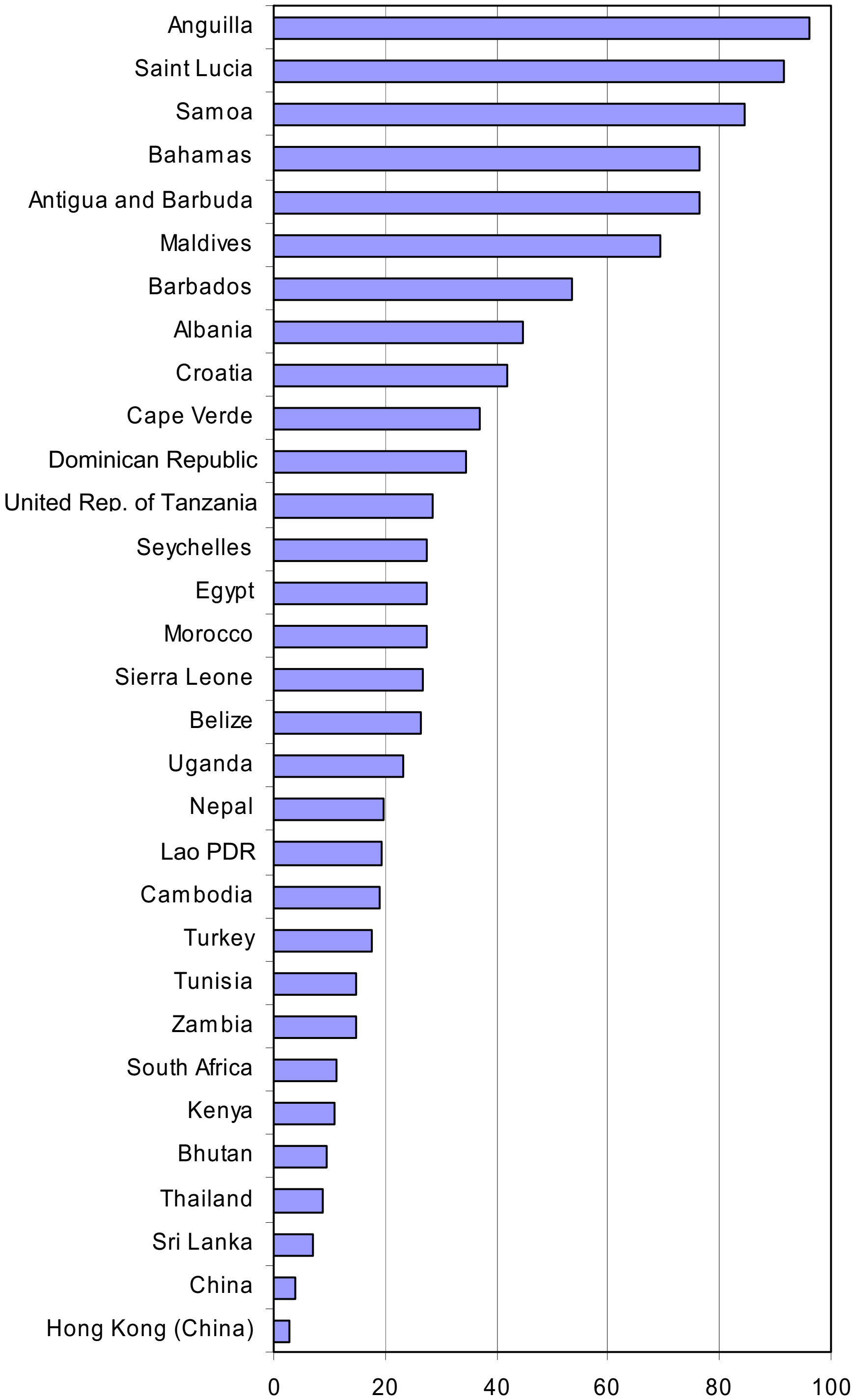
Even more importantly, for many countries tourism is a highly labour-intensive activity that offers opportunities to significantly boost the number of jobs. This is especially important for developing countries that have experienced jobless growth in the recent years of the commodity boom. Extractive industries and manufacturing, for example, create few jobs by comparison. Also, as jobs in tourism and tourism-support activities include a relatively high proportion of semi-skilled and female workers, and encompass a range of enterprises – from micro to transnational

Table I.1. Share of travel services in total trade of commercial services, 2004
(Per cent)

	Share of services	
	Total exports	Total imports
Africa	51.0	20.0
LDCs	50.0	..
South and Central America	48.9	24.5
North America	31.4	27.1
Europe	28.1	29.3
European Union-25	27.2	29.0
Asia	26.6	25.8

Source: WTTC, 2006.

Figure I.2. Tourism receipts as a percentage of total exports of goods and services, 2004



Source: UNCTAD database and WTTC, 2006.

– there are good reasons to expect tourism-related jobs to target the poor rather than the elite in developing countries (ODI 2006).

Moreover, because tourism is such a cross-cutting industry, it can also potentially create spillovers into further investment, jobs and growth in other sectors of the economy.

The view that tourism can make a substantial contribution to the economic and social development of developing countries is gaining momentum due to what has been described as a "quiet but significant reappraisal" (ODI, 2006) of the potential effects it can have on economic growth and poverty reduction. For example, a recent paper from the United Nations Economic Commission for Africa (UNECA) stated, "as an industry, it [tourism] is labour-intensive; it is less vulnerable than traditional sectors; it is non-cyclical; it has a catalytic effect on the rest of the economy; it has lower barriers to entry and creates better and more gender concerned jobs than most sectors. More important, being built on natural and cultural assets and consumed onsite, it can reach the poor in rural areas where poverty is harsher." (Gerosa, 2004).

Central to these features is the fact that consumers must travel to the country where the tourism services (e.g. hotels) are located. This significantly increases the potential for valuable linkages for the host country, compared to conventional cross-border trade in goods, because the tourist is present physically and therefore able to consume and buy goods and services at the point of their production or availability. In effect, every tourist-related transaction, whether it is the sale of an apple or a haircut, is equivalent to an export. Opportunities abound, since developing countries already possess many of the sources of comparative advantage necessary for tourism activity. It is also an industry where, once business has started, income streams can flow relatively quickly, and into economic activities.

On the other hand, tourism is also an extremely sensitive sector that is vulnerable to external shocks, whether economic, environmental or political. It can also potentially create additional problems of its own (e.g. social and economic costs to communities and to the environment; see e.g. Hickman, (2007)). Its employment potential is not always best exploited in tourism-recipient countries: wages can be low and labour policies generally need to be improved. Tourism has also sometimes been associated with unsavoury or even criminal activities such as "sex tourism", or more generally with undermining traditional values. Even without such problems, there is sometimes a belief that tourism has failed to bring the expected benefits (section C and box I.3). As described in chapter II, tourism's adverse impacts on communities can be drastic, and need to be weighed carefully against its potential benefits. For developing countries, the lesson is that tourism needs to be managed carefully if it is to contribute to the creation of the desired jobs and income, and play a role in eliminating poverty without undermining the local economy, the environment, social traditions and cultural resources.

B. FDI in tourism

Tourism is an activity where capital, infrastructure, knowledge and access to global marketing and distribution chains are critical. FDI is often considered one of the most effective engines for harnessing these elements. Hence most developing countries place a high priority – often the highest priority – on attracting such investment, some by experimenting with a variety of policies.

However, the role of FDI in tourism is more nuanced than it is in some other sectors of the economy, and most countries approach it with a combination of hope and fear. It is valued because of what it can provide, but it is also feared for its impact upon economic and cultural independence, and its potential damage to the communities and the environment. In some countries, efforts to attract FDI in tourism sit uneasily alongside complaints that there is already too much FDI, or that foreign investors dominate the sector and do not pass the benefits of tourism on to the domestic economy (box I.3).

Clearly, a fine balance needs to be maintained in order for developing countries to capture the benefits of this growing economic activity at minimum or sustainable costs. However the search for appropriate policies to help achieve this has been hindered by the fact that there is little recent literature on FDI and tourism in developing countries, particularly from an empirical perspective, or on a counterfactual that compares foreign and domestic investors. Its economic dynamics are not well understood, and there are important gaps in understanding its trends or its impact. Much has been usefully written about tourism in general, including on tourism and development, pro-poor tourism, tourism in African countries, ecotourism, South-South tourism and sustainable tourism.[1] However tourism sustainability is typically approached from an environmental and social perspective, and less so from an investment-oriented one.

For example, there has been little if any mapping of the extent of FDI in tourism, let alone an estimation of its impact, despite the fact that many developing countries are giving top policy priority to attracting FDI in tourism. [2]

Similarly, little is known about the linkages between FDI in tourism and the local economy, with a few exceptions (e.g. Lengerfeld and Steward 2004). And while a lot has been written about "leakages" to the balance of payments, there has been insufficient empirical evidence of the effect of FDI on a country's tourism balance sheet.[3] Research is therefore needed to clarify how host countries can be more active partners in the value chain of international tourism in ways that enhance local skills, boost human capital stocks and increase revenues.

Box I.3. Some perceptions of FDI in tourism

A commonly held view about FDI in tourism in developing countries is that there is too much of it, that it is dominant, and that TNCs do not disperse the benefits of tourism sufficiently widely through the host economy.

For example, a background note summarised the broad tone of the literature as follows: "many analysts argue that tourism, driven by foreign private sector interests, is not an activity suited to poverty elimination. They argue that economic benefits are not maximised because of the *high level of foreign ownership*, high leakages and the relative absence of local economic linkages" (UNCTAD 2001, p.60). Similarly, there is the sense that tourism in developing countries is characterised by "*high dependence on foreign capital and foreign management*…" (ibid. p. 63; italics added by UNCTAD).

Much of the critical literature was written in the 1970s and 1980s, although recent writers are still rather negative in their assessment of the role of TNCs.[4] For example, Brohman (1996, pp. 54-55) cites the "problems of dependency, internal disarticulation and foreign exchange leakages usually associated with underdeveloped economies dominated by foreign-owned export enclaves", and argues that "foreign domination and external dependency often seriously reduce tourism's potential for generating broadly based growth, as well as the net financial advantages that the industry brings to developing countries." Irrespective of the veracity of such views, developing countries need to devote attention to strengthening the participation of the domestic economy in the tourism industry, and in part this includes ensuring net positive linkages with TNCs.

/…

Box I.3. Some perceptions of FDI in tourism (concluded)

The notion of foreign domination is a common one, but foreign hotels can have visibility and a profile in a developing country that is larger than the size of their operations would suggest. Besides, the wide use of management contracts and franchising activities means that much of what appears to be foreign ownership is not. A hotel that has a foreign name is assumed to have foreign owners, although in many, possibly most, instances this is not actually the case. Such non-equity relations may still come under the umbrella of FDI, loosely defined, but in fact ownership and profits may be in domestic hands. In Kenya, for instance, it is frequently claimed that the bulk of the country's tourism infrastructure is owned by foreigners (IDS 2000), or that tourism revenues primarily benefit foreigners. This is evident from newspaper articles in 2005, one of which stated that "of Kenya's 290,000-plus tourist hotel bed(s), foreign hoteliers own 74.3 per cent", or that "tour flights to Kenya are entirely in the hands of foreign airlines" and "foreign companies stationed in European and American capitals entirely control hotel bookings."[5]

The UNCTAD team in Kenya frequently encountered such views when conducting research for this project. Kenyan tourism enterprises argue that such information is incorrect and harms Kenya's chances of being a successful tourism economy. A representative of Kenya's Association of Tour Operators and the Kenya Tourism Federation said that, in fact, the majority of licensed hotels and safari lodges on the coast, in Nairobi, in country towns and in the parks and reserves are owned by Kenyan companies, not foreigners. This is in line with the findings gathered through UNCTAD interviews and research associated with this project, which estimates that foreign ownership accounts for a share of around one third at the most, and generally much less.[6] In general there is a lack of information about the tourism industry structure in developing countries, including data on the true extent of foreign ownership.

The question of the distribution of revenues and profits between foreign tour operators and domestic hotels is important in all developing countries, and one of the policy recommendations made in this monograph (chapter IV) is that attention needs to be paid to strengthening the bargaining position of local hotels in the international tourism production chain. The objective would be to ensure that domestic enterprises gain from the global tourism boom not only in absolute terms, but also in relative terms.

However this is not to say that countries would be better off without foreign tour operators or hotel companies. For example, a Kenyan safari investor said, "The fact is that the overseas companies give a big boost to our tourism and we do receive payment in Kenya for all the services supplied here: tours, transport, park fees, accommodation, meals and incidentals like laundry, regardless of where the client pays… even though the foreign tour operators may be my competitors, I have to admit that (they) have an important part to play in developing our tourism industry."

The perceptions described above sometimes also reflect concerns about the involvement of historically disadvantaged peoples in the tourism value chain. This is understandable and, as an alternative to eschewing tourism activity, lessons might be taken from the Black Empowerment approach promoted in tourism in South Africa among other sectors of the economy (see for example http://www.thedti.gov.za/bee/beecodes.htm), or the use of other public initiatives to promote domestic entrepreneurship in poor and disadvantaged communities.

Source: UNCTAD (2007a, b).

C. The historical context: the promise and the realities of tourism and FDI in tourism

Developing countries began to recognize the promise of large-scale international tourism in the decades after the Second World War. Although the development paradigm of that time strongly favoured industrialization – to reduce dependence on commodities – a growing number of developing countries began to see international tourism as a source of much-needed foreign exchange, jobs and economic growth. With the growing affluence of Western societies and developments in transport and communications, the demand for international tourism was increasing very fast, and indeed continues to grow. Developing countries had strong comparative advantages in tourism, and the production of tourism services did not seem to have high barriers to entry. For some small countries with few resources and capabilities, tourism became the main development strategy. For larger countries it was an additional source of economic diversification and a way to develop regions that had seemingly little to offer other than natural beauty and a favourable climate.

In many developing countries the growth of tourism was impressive in terms of tourist arrivals, foreign exchange revenues and jobs. In some of them, tourism became, for a period, an engine of growth. But it also led also to drastic social and cultural changes: for example, traditional and original local cultures or rituals became "commoditized" (sometimes even destroyed), families broke up, local social structures collapsed, and crime, unknown before, began to surface and quickly spread. In addition, the physical landscape changed and the massive inflow of tourists put a strain on resources, including natural resources, which were the basis of comparative advantage in tourism, raising questions about that sector's sustainability. Local populations in tourist regions were often unable to cope with the drastic changes and migrated to urban centres or became even poorer (box I.4).

Box I.4. Is an increase in tourism worth paying the price?

The following passage by Smith (1988, pp. 12-13) cited in Harrison (1992a), describes some of the ambivalent experience with tourism in Boracay, a tiny Philippine island. It illustrates well the costs and benefits of tourism, differences in local perceptions and the relevance of theoretical debates about tourism.

> The islanders subsisted on farming and fishing until Boracay was "discovered" by international tourists in the 1980s. The result was an intense pressure on the island's infrastructure, and the need for electricity, a central water supply and a system of sewage disposal soon became apparent. With the invasion of "drifter" tourists, middle-class and family-oriented tourists declined in number, but the amount of garbage and other forms of pollution increased. With electricity came neon lights and discotheques; villagers sold souvenirs and rented out cottages and land values increased astronomically. And despite the reservations of older and more conservative islanders, young people nearly idolized the tourists for whom most of the working class …were willing to work literally day and night … for the sake of the money.

/…

Box I.4. Is an increase in tourism worth paying the price? (concluded)

At the time of Smith's paper, the Government was having to decide if it could provide funds (and how to obtain them) for such necessities as a sewage treatment plant, a modern water supply and a garbage disposal system, as well as access piers and first-aid services. At first sight, what happened to the island should be a clear warning of the perils of courting the tourism economy. However, Smith concluded that:

> Yet the people of Boracay, like all rural Filipinos, would enjoy having the infrastructure that is needed to support tourism, because it would make their lives easier, pleasanter and safer. And they certainly want the income generated by tourism, in the form of cash with which to buy goods and services including better education for their children. They appreciate the employment that is enabling their young people to stay on the island, or to return home to Boracay from the squalor of big cities, and be with their families. In the eyes of most villagers, tourism has been very positive - and the sins of the "drifter" tourists can be temporarily overlooked in the face of their largesse.

Boracay was undoubtedly being "modernized" in the sense of being incorporated more closely into the world economic system, with the expansion of the cash economy and wage labour and the introduction of Western norms and values. But was this "development", and who should be the judge?

Source: Harrison (1992a).

Some view these changes as the inevitable price of modernization. After all, the early decades of industrialization and urbanization in the countries of the North, now "developed" countries, were also marked by similar problems. Others, however, view these effects as symptomatic of failed development strategies that were promoted by, and which benefited, unscrupulous local elites and TNCs (e.g. Harrison, 1992b). For example, net foreign exchange revenues were not as great as expected because of "leakages" (i.e. expenditure on imported goods and services and payments to foreign factors of production or tax evasion). Jobs were seen as low-skilled and low-paid, and of a subservient nature. Many tourism centres developed as enclaves with little or no interaction with the local economy. Local entrepreneurship was very limited. These issues aroused considerable passion in the tourism literature of the 1970s and 1980s, and may never disappear (see Box I.3). Differences in perceptions and interpretations of tourism run deep not only among academics but also those directly affected.

What is the situation today? In spite of mixed experiences, and some disappointment and criticism from several quarters, more countries than ever before have put tourism development on their policy agenda. This includes developing and least developed countries. As a result, there is growing competition worldwide for international tourists. Competition is particularly intense among destinations that have been unable to improve and differentiate their tourism offer, and that therefore offer similar attractions to other countries. As noted earlier, many are sold as barely differentiated "commodities" with the main distinguishing factor between one country and another being reduced to locational advantages such as the distance from the consumer or the price. This is especially a problem with beach-based tourism.

The reasons that the industry is so competitive are illuminating, because they express both the attractiveness and the dangers it embodies. Firstly, tourism now, as before, offers many potential benefits to countries: it is an export activity for which worldwide demand continues to grow very rapidly. Barriers to entry are generally low, lower than in many other export industries, and moreover the consumer comes to the seller and not vice-versa. As a result, "income can flow quickly if the tourism development strategy and associated marketing is sound" (WTO/OMT 2001, p. 60). Tourism stimulates infrastructure development and, through its long and widely dispersed value chain, provides potential opportunities for local companies, small and large. Furthermore, many countries simply do not have much choice. Many have few other export alternatives and, for most, tourism is already proving to be an important source of export revenue.

However, its potential is not always realized, and without the appropriate policy framework it is not clear that the benefits of tourism will outweigh the costs. This is true for tourism in general, and for FDI in tourism in particular. Moreover, many changes have occurred in response to criticism of tourism and tourism-related FDI. The objectives of tourism development have been expanded to include environmental protection, poverty reduction, conservation of cultural and historical resources, local enterprise development and benefits to local populations. Within countries and internationally, there is greater dialogue and consultation among all stakeholders of tourism development. Large companies, key actors in international tourism, have become stakeholders in and promoters of responsible and sustainable tourism. An increasing number of developing-country governments have learnt from their past mistakes and, more importantly, have acquired the necessary capabilities and skills, often assisted by international organizations, donor governments and non-governmental organizations (NGOs), to deal with problems associated with tourism and to address critical issues through policy measures. Technological developments in tourism, such as e-commerce, have helped to create new opportunities for developing countries.

Reflecting this, tourism features as a priority sector in an increasing number of developing countries' economic strategies. Some countries see no other viable alternatives; others see it as a useful means of economic diversification. However, their efforts to realize the expected growth and poverty-reducing impacts have been hampered by the lack of information on tourism investment and sustainability from an economic perspective, as opposed to a strictly environmental or social one. One of the key goals of this report, therefore, is to highlight the policy initiatives that can help developing countries to reap the potential benefits from tourism-related FDI.

D. UNCTAD research and policy analysis

This UNCTAD publication aims to help fill some important gaps in our understanding of recent major trends and issues relating to FDI in tourism, and their implications for developing countries. This publication is based on the UNCTAD project, *FDI in Tourism: the Development Dimension,* which began in 2006 following a meeting in Geneva of tourism, investment and development experts that helped assess the current state of knowledge of the subject, the areas where more information was needed, and the most appropriate methodological approach to the work.

Subsequently, UNCTAD carried out a number of research initiatives, including a global survey of TNCs in the hotel business with a focus on developing countries, and a series of fact-finding missions in a selection of those countries. The project focused mainly on hotels because, contrary to perceptions, there is relatively little FDI in other activities such as tour operations or airlines (as discussed in chapter II). The lessons learned from this research and analysis is presented in this monograph and in accompanying country case studies. Further information on the study, its methodology and approach is given in chapters II and III.

The structure of this monograph is as follows. Chapter II describes recent trends in TNC activities in tourism, focusing mainly on developing countries but also drawing insights from developed countries where appropriate. Chapter III analyses the impact of FDI in tourism, with an emphasis on microeconomic indicators relating to capital formation, job-creation and skills transfer, and linkages with domestic enterprise. Chapter IV describes and evaluates the various policy experiences of a number of developing countries, and highlights useful lessons that have emerged. Chapter V concludes. The annexes present additional information, including more detailed tables and figures to support the text, and a brief discussion on FDI in airlines and other tourism activities. Selected country case-studies are published in separate reports (UNCTAD 2007a, and 2007b).

Notes

1 See, for example, Ashley and Mitchell (2005), Christie and Crompton (2001), Ghimire (2001), Goodwin and Rowe (2006), Harrison (1992a,b), Mathieson and Wall (1982).

2 A UNCTC study (1982) on FDI and tourism is now more than 20 years old, and there has been less empirical analysis in the literature than might be expected (ODI 2006, Tang et al, 2007), although at the theoretical or hypothetical level more has been written. Tourism FDI was discussed at length in the 'dependency' political economy literature of the 1970s, and some more recent writers are still rather negative in their assessment (eg Brohman 1996, Perez 1974, Thompson et al 1995, Clancy 1999, Weaver 1988, Harrison 1992, Oppermann 1993, and Freitag 1994 among others). However tourism and FDI has not been much examined in an extensive or comprehensive way, e.g. comparing the experiences of different countries, or the effects of foreign vis-à-vis domestic investors, for example. Gerosa and Gaucer (2002) and te Welde and Nair (2005) explore the topic of tourism FDI and the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO). Lengerfeld and Steward (2004) indicate an interesting area for new research on the impact of all-inclusive tourism. Kusluvan and Karamustafa (2001) explore policy implications of multinational hotels in developing countries, but primarily from a theoretical and not a case-study or empirical perspective. Similarly Rodriguez (2002), Contractor and Kundu (2000) and Chen and Irini (2005) focus more on corporate strategy, and do not focus on developing countries. Tang et al (2007), on the other hand, address the question of the relationship between FDI and tourism in China, but examine FDI in total and not tourism-related FDI.

3 "A striking feature of (the criticisms) regarding the impact of international tourism on developing countries is the lack of sound empirical analysis to support them… the evidence is not extensive, definitive nor comprehensive" (ODI, 2006).

4 For example, Perez (1974), Thompson, O'Hare and Evans (1995), Brohman (1996), Clancy (1999), Tosun (1999), Weaver (1988), Harrison (1992a), Oppermann (1993) and Freitag (1994).

5 For example, the *Sunday Standard*, 17 April 2005, 'Kenya's wealth in foreign hands'; and the *Daily Nation*, 1 April 2005, 'How tourism billions end up overseas'.

6 No national accounts data on this exist, and the exact proportion varies according to whether one uses measures based on room numbers, hotel numbers, or the quality/grade of the hotel. UNCTAD research into the higher grade hotels found that the share of foreign hotels was around one third at the most. It is higher in the top-grade hotels, and virtually non-existent in the lower grade ones (UNCTAD 2007a , b)

Chapter II

Trends in Tourism-related FDI and Developing Countries

Introduction

This chapter analyses three broad aspects or trends that characterize tourism-related FDI and TNC activities in developing countries and economies in transition. Firstly, even though tourism is the largest industry in many countries, it appears to be one of the least globalized. Contrary to perceptions, UNCTAD finds that FDI in tourism is still rather low – in developed as well as developing countries – compared to the levels of FDI in other economic activities, including other services industries.[1] For example, the outward FDI stock in tourism of the United Kingdom, the largest source country, was just $34,404 million in 2004, or 2.5 per cent of that country's total outward FDI. For the United States, home of most of the world's largest tourism-related TNCs and the second largest source of outward FDI stock in tourism, that industry's share was just 1.5 per cent of total outward FDI stocks.

This is partly because tourism-related FDI is concentrated in just a few of the many related activities covered by the definition of tourism (box II.1), mostly hotels and restaurants, and car rentals. There is very little FDI in high-profile and important activities such as tour operations, reservations systems and airlines.

Box II.1. What is "tourism"? Definitions and measurements using the tourism satellite accounts approach

One challenge in tourism economics is that "tourism" does not appear as a formal industry classification in national accounts. Frequently, data for hotels are found within "real estate", and transport is aggregated under "transport, communications and storage". This makes it difficult to quantify the size and importance of tourism assets, revenues or employment.

Most countries are now improving this situation by introducing what is called a tourism satellite account (TSA). This is a statistical approach developed by the WTO-OECD-Eurostat Inter-secretariat Working Group and endorsed by the Statistical Commission of the United Nations in 2000. It defines tourism industries as "all establishments whose principal productive activity is a tourism characteristic activity" (WTO 2004, pp. 13-14). The TSA Recommended Methodological Framework identifies 12 separate national accounts industries as tourism characteristic activities. All are service industries, and half are related to transportation (box table 1). To date, more than 100 developing countries have begun the TSA process.

The methodology distinguishes between enterprises that are directly involved in the production and consumption of tourism services (the "tourism industry") and the people and firms indirectly involved in the wider "tourism economy". This second tier includes, for example, catering companies, fuel suppliers and the firms that serve the firms that serve tourism. Most developed countries have estimated that their tourism "economy" generates almost twice as many jobs and export revenues as their tourism "industry", and similar estimates could be expected for developing countries. However, since the methodology does not distinguish between foreign and domestic enterprises, it is not possible to estimate the relative contributions made by each of them.

On the basis of UNCTAD research, it appears that FDI and TNC presence is concentrated in a handful of the 12 classified activities, as shown in box table II.1.1.

/…

Box table II.1.1. FDI is concentrated in a subset of tourism activities

TSA components	Frequency with which FDI appears to occur		
	Most frequent	Occasional	Rare
Hotels and similar	√		
Restaurants and similar	√		
Second homes	√		
Passenger transport rental equipment	√		
Railway passenger transport services		√	
Air passenger transport services		√	
Road passenger transport services			√
Water passenger transport services			√
Passenger transport supporting services			√
Travel agencies and similar			√
Cultural services			√
Sports and other recreational services			√

Source: UNCTAD.

Secondly, tourism FDI is concentrated primarily in developed countries. This is apparent in terms of tourism-related FDI stocks, but it is also visible in terms of the locations of hotels that are part of international hotel chains. It appears that 85–90 per cent of TNC hotels are located in developed countries, with only a small proportion in developing countries.

The finding that tourism is "unglobalized" and concentrated in developed countries is at odds with the perception that FDI in tourism is widespread, and even that it dominates the tourism industry in developing countries (as mentioned in chapter I). Indeed, we find that even when non-equity forms of TNC involvement are included, the presence of TNCs in tourism is in most cases rather low. Tourism appears to be an economic activity in which domestic investors, including small and medium-sized enterprises (SMEs), dominate. Even tourist travel is less globalized than is commonly assumed; it has been estimated that only about 10 per cent of total tourist movements are international ones (WTTC 2003).

The third broad trend is that tourism-related FDI to developing countries is increasing markedly – despite the first two aspects described above. On the basis of available data, it appears that inward FDI stocks in tourism have doubled or trebled in recent years in developing countries with a relatively long history of such FDI, and have increased by as much as 10 times or more in countries where international tourism is growing relatively rapidly?.[2] Moreover, this growth can be expected to continue over the next five years, according to respondents to the UNCTAD survey of international hotel investors (subsection C.3 below)

The fact that FDI in tourism is relatively low, at least compared to popular perceptions, does not mean that tourism-related TNCs are insignificant. Although the absolute values of tourism-related FDI stocks remain low, they can be important to the countries that host them. Moreover, tourism FDI statistics may underestimate the true extent of TNC activity. In part, this is because many countries do not have comprehensive data on tourism investment. Tourism industry specialists and the United Nations World Tourism Organization (UNWTO) have argued that until better statistics are collected, tourism will not be taken seriously as an economic activity, which means that the appropriate policies will not be implemented; and certainly data collection has been one of the challenges in this project. One relatively small problem, for example, is that FDI may involve equity from a third-party TNC investor, for example when an Egyptian investor owns equity in a Tanzanian hotel managed by a British TNC. But it is also because much TNC activity takes place through non-equity modes such as management contracts or franchising. When this does not involve an equity transfer, it does not appear in FDI data, even though the activity may be characterized by other features that can have an effect similar to that achieved through equity ownership, such as managerial control, technology and knowledge transfer, and access to markets.

This publication presents new evidence on the experiences of developing countries and transition economies (see box 1, Executive Summary) with respect to FDI in tourism, which can be used alongside official information available from national accounts and other sources (box II.2). The discussion is also supplemented by information from developed countries, because they are the largest sources of FDI and their mirror-data can help fill gaps in data from host developing countries.

The analysis begins at a general level in terms of FDI in all tourism activities, but it mostly focuses on hotels and restaurants, because this is where most TNC activity takes place, and because of its important role in the tourism value chain. One of the "myths" that this research has sought to correct is about the role of FDI in activities such as airlines or tour operations. These are undeniably important activities in the international tourism chain, but FDI in them is relatively scarce (see annex A?). Most tourism-related FDI is in hotels and restaurants, and car rentals.

Following a brief conceptual discussion in Section A, Section B presents evidence of recent global trends in tourism-related FDI. Section C focuses on developing countries, including the growingemergence of TNCs from the South. Section D provides new information on equity and non-equity forms of TNC presence. Section E concludes by summarizing the chapter's findings through a stylized series of points on the "myths and realities" of tourism-related FDI. Throughout the chapter the evidence is presented first at an aggregate or multi-country level and then through individual country examples.

Box II.2. What is – and is not – foreign direct investment?

FDI occurs when an investor resident in one country (the source country) acquires ownership in and a significant influence over the management of an enterprise or productive asset in another country (the host). This may involve creating a new enterprise (greenfield investment) or changing the ownership of an existing enterprise (via a merger and/or acquisition). This definition is usually taken to mean a minimum of a 10 per cent equity stake, although it is of course possible to control a firm or assets with less, and even without an equity share. One practical problem discovered through the UNCTAD research project is that there are a large number of foreigners residing in host countries in which they own and run hotels. While this may be an important source of investment capital for a developing country, strictly speaking it is not FDI. By the same token, this rules out foreign tour operators from the analysis, because in most cases they have little presence in the host foreign country other than perhaps a local agent. Again, this is not FDI.

FDI is measured in two different ways: FDI stocks and flows, and the operations and activities of foreign affiliates in host countries. Financial FDI data are compiled according to the concepts used for balance of payments (flows) and international investment position (stocks) statistics, while information on the activity of foreign affiliates is typically collected through surveys. This publication uses both forms of measurement.

/…

Box II.2. What is – and is not – foreign direct investment? (concluded)

FDI *flow* data for a country are usually provided on an annual basis. They give a sense of the dynamism of foreign investment because they are composed of: (i) the flow of equity capital (the foreign investors' purchase of shares in a tourism enterprise in a host country); (ii) reinvested earnings (the foreign investors' share of earnings not distributed by dividends or remitted home); and (iii) intra-company loans.

FDI *stock* data, by comparison, give a consolidated rather than a dynamic picture, being the sum of: (i) the value of the capital and reserves held by a foreign investor in a host country, including the value of retained profits: and (ii) the net indebtedness of foreign affiliates. Like flow data, stock data are also provided on an annual basis. It is preferable to use stock data for many analytical purposes, in part because equity flows in or out of a country can be distorted by one or two large projects in any given year. However stock data are not always available. Also, in many countries they are estimated simply by cumulatively adding the FDI flow data – which defeats the purpose, as they may overestimate or underestimate the true value of the stocks held.

Ideally, both measures are needed, using flow data to understand why the stock values have increased or decreased in any given year. For example, stock values could increase, even if there were no new inflows, if long-held assets were revalued upwards because of a real-estate boom, for example, or the increased profitability of the company. As a general rule, the more developed the economy the better the FDI data. The United States, for example, provides among the most comprehensive FDI data. For many countries, including some that appear to be increasingly significant sources of outward investment in developing countries, the data on FDI in tourism is still largely lacking.

In this publication we use stock data wherever possible in the first instance, but usually move fairly quickly to flow data, or to other ways of measuring the scale and scope of FDI activity, such as the level of employment in foreign affiliates or the number of hotels affiliated to a TNC.

The latter is especially important in tourism given the fact that many TNCs are reducing equity in "their" hotels, or even hold no equity at all while still maintaining a managerial or overseeing role through a management or franchising contract (allowing them to still maintain control over the company). Moreover, because the impact of a TNC depends upon a whole package of elements including technology, managerial techniques and access to world markets, in addition to equity capital, non-equity modes of having a presence are considered as important in many circumstances.

Source: UNCTAD.

A. Conceptual context

The logic which drives FDI in other activities seems to be less apparent in tourism. According to a major theoretical approach in this field, a firm will only establish an affiliate in a host country if three factors come together simultaneously (Dunning, 1993): (i) if it possesses ownership-specific technological or other advantages which allow it to compete effectively with local companies (which are advantaged by being on their home turf); (ii) if there is some benefit to locating in the host country (locational advantages such as cheap labour, or local assets such as "sand, sun and sky" (SSS or 3Ss, for some tourism destinations); and (iii) if the net benefits of intra-company transactions (i.e. between the company and its foreign affiliate (internalization)) outweigh those of an equivalent market transaction between the company and a firm in the host country. The analytical framework on which this description is based is known as the "OLI (ownership, location, internalization) paradigm". In tourism, we find that the third factor, in particular, occurs much less than it does in other economic activities.

The first condition (ownership of competitive advantage(s)) and the third condition (benefits of internalization) are determinants of whether or not FDI is an attractive strategy in the first place, from the firm's perspective. The second condition is location-specific and has a crucial influence on which countries will appear on the TNC's radar screen. If only the first condition is met, firms will rely on exports or licensing/franchising, rather than on FDI, to service a foreign market. If only the first and second conditions are met, the firm will use management contracts or licensing/ franchising to service the market – again, not FDI in the narrowest sense (although as argued below, it can have impacts in host locations that are as significant as those created through equity investments). This situation applies frequently to hotels, for example, because many of the core assets of the firm in terms of global reputation and management experience can be provided through a management contract, so that equity ownership (establishment of an affiliate) is not essential. When the first and third conditions exist simultaneously, then equity investment becomes the preferred mode of servicing foreign markets, but only in the presence of location-specific advantages. Within this trinity of requirements, for FDI to occur the only ones that host governments can influence directly are those relating to location.

Figure II.1 applies the OLI approach to the four activities, as defined under the TSA approach (box II.1), in which FDI has been found most likely to occur. It shows why the three OLI conditions occur most frequently only in hotels and car rentals. Moreover, even when a TNC decides to have a physical presence in a host country, it can take either equity or non-equity organizational forms depending on the relative balance of effects that favour equity participation (+) compared to non-equity participation (-), as shown in columns 4 and 5. For example, capital intensity and the importance of managerial resources in the hotel industry are among the factors encouraging FDI in hotels; in contrast, restaurants are normally locally owned because capital costs are lower – and even if they belong to a foreign chain, franchising discipline is normally sufficient to maintain quality.

As mentioned in chapter I, the greater incidence of non-equity forms of TNC activities in tourism is a factor that should be borne in mind when analysing FDI in tourism. Statistical offices collect data primarily on certain measurable aspects of the FDI relationship: that is, on the managerial and financial control a TNC gains through owning equity (typically more than 10 per cent of equity ownership). This means that official FDI data relating to inward and outward FDI stocks and flows (as described in box II.2) do not fully capture the extent of TNCs' activities and their influence. However, as indicated above, a TNC may have significant de facto control or influence over a local investor or local enterprise even without an equity stake, for example through the use of non-equity arrangements or contractual activities. These can include management contracts, leasing or franchising, all of which are frequently used in tourism in general, and in the hotel or car rental industries in particular. In this publication, we distinguish, wherever possible, between equity and non-equity relations, and use the term "TNC activities" to cover all general relationships.

Figure II.1. OLI advantages combine infrequently in tourism

Industry/ activity	Ownership advantages	Locational advantages	Internalization factors (+) encourages FDI; (-) encourages other modes	Organizational forms
Hotels	• Experience in home countries in supplying up-market services • Experience in training key personnel • Quality control systems (e.g. management, procurement) • Referral systems (GDS) • Economies of geographical specialization, access to inputs	• Location-bound when selling a foreign service • Exports through tourists/business people visiting home or host country	• Investment in hotels is capital intensive **(+)** • Quality control can be ensured through non-equity forms **(-)** • Governments prefer non-equity forms **(-)** • Referral systems are centrally coordinated without equity control **(-)** • Growing brand recognition for new TNCs from the South. **(+)** • Lack of managerial expertise in host country **(+)** • Growing managerial expertise in host country (-)	• Vary according to relative (+) and (-) influences on equity/non-equity decision, because both forms can protect ownership advantages
Restaurants and car rentals	• Brand name and image • Reputation and experience • Referral systems (GDS) • Economies of scale and scope • Tie-up deals with airlines and hotels	• Location-bound • Foreign earnings through tourists and business people visiting exporting countries	• Franchising can protect quality **(-)**	• As with hotels, forms vary because ownership advantages can be protected by contract
Airlines	• Highly capital-intensive • Government support measures and/or control over routes of foreign carriers	• Logistical management • Advantages of vertical integration • Quality control	• Role is essentially location-linking **(-)** • Need for local sales office, access to terminal, and maintenance and support facilities **(+/-)** • Growth in alliances and code-sharing **(-)** • Liberalization of markets **(+)**	• International services do not require FDI • Growth in alliances and affiliations (e.g. code-sharing)
Tour operators/ travel agencies	• Reputation of providing satisfactory experience • Economies of scope (travel portfolio offered) • Bargaining power • Quality of deals made with airlines, hotels, cruise companies and other associated services	• Need for local tour agents and support facilities • Customers initially originate from home country? • Costs of supplying local facilities usually lower • Fiscal incentives and infrastructure facilities	• Coordination of itineraries, packaging of services, need for quality control of ancillary services for tourists **(-)** • Economies of transaction costs from vertical integration **(+)** • Growth in e-commerce and increasing role of local tour operators **(-)**	• FDI is rare; mostly firms have only local agents.

Source: UNCTAD, expanding on Dunning 1989.

B. Global trends

1. Overall scale and regional concentration of FDI in tourism

The fact that tourism is a relatively "unglobalized" activity is illustrated in table II.1, which shows inward and outward FDI stock in tourism for the world's largest home and host countries (on the basis of the data available). Even though FDI in tourism has doubled or tripled for developed countries, as with developing ones, inward stocks still constitute less than 2 per cent of total FDI for all countries shown, and for most, are less than 1.5 per cent. As with the evidence on outward stocks, inward FDI stocks are concentrated primarily in hotels and restaurants, although both France and the United States host some inward FDI in air and water transport (annex B, table 3). Inward FDI stocks in air transport accounted for 7 per cent of the tourism FDI stocks held in France in 2003, while the equivalent share in the United States was only 0.2 per cent. On the other hand, tour operations accounted for just over 1 per cent of the total tourism FDI stocks held in the United States, having been as high as 3 per cent in 2000. The United States was the only country to show inward FDI in this activity.

The bulk of FDI stock in hotels and restaurants by major home countries is located in other developed countries, in particular the United States, followed by the United Kingdom, Canada, Australia and Germany. Countries where inward FDI stocks exceed outward stocks, were, in order of magnitude, Australia, Germany, Portugal and Austria. Of the outward FDI stocks in hotels and restaurants from the European Union (EU), between 80 and 85 per cent are invested in other EU countries and the United States. The picture is similar for the United States' outward stocks in hotels and restaurants: developed countries (excluding, however, Belgium, France and Italy, for which the data are not disclosed, and a number of smaller countries for which the data are not available) accounted for two thirds of the United States stocks in 2002.

Table II.1. The world's top five source and host countries
(FDI stocks in hotels and restaurants)

A. Inward tourism-related FDI stocks						
Host/year	**1990-1992**	**2000**	**2002**	**2003**	**2004**	Share of tourism in inward FDI stocks
	$ m	$ m	$ m	$ m	$ m	%
Canada	..	2 876.3	2 907.7	3 831.6	..	1.4
France	493.3	688.3	660.7	1 818.7	1 743.5	0.3
Hong Kong (China)	..	6 102.0	5 521.0	3 706.2	4 578.0	1.0
United Kingdom [a]	3 955.6	6 250.8	6 058.8	11 673.7	9 546.9	1.3
United States	12 191.0	22 230.0	21 435.0	23 369	23 556.0	1.5
B. Outward FDI stocks						
Source/year	**1995**	**2000**	**2002**	**2003**	**2004**	Share of tourism in inward FDI stocks
	$ m	$ m	$ m	$ m	$ m	(%)
Canada		7 321.0	8 009.6	8 701.6	8 701.6	2.8
France		3 952.8	4 787.0	6 018.2	5 478.4	0.7
Hong Kong (China)		8 469.5	6 416.1	5 445.2	6 762.3	1.7
United Kingdom	13 574.9	10 142.5	40 804.4	37 773.2	34 404.0	2.7
United States	10 417.0	17 474.0	21 085.0	22 669.0	24 525.0	1.2

Source: UNCTAD FDI/TNCs database (as on February 2007).

Another way to illustrate this is through the portfolio of hotels held by the world's largest hotel TNCs. As shown in table II.2, the United States is the largest home country of international hotels, owning 9 groups of the 15, with the United Kingdom and France coming second, each with 2 groups, and then Germany and Spain. All groups operate internationally in 6 to 100 countries, but 3 of them (2 from the United States, including the largest one, Cendant, and 1 French group) focus on their home markets, with fewer than 10 per cent of their hotels located abroad. The home countries of TNCs having hotels in the largest number of developing countries are the United Kingdom, with TNC hotels in at least 65 developing countries, and France, with TNC hotels in at least 61 developing countries. The relatively low presence in LDCs is also clear, with the exception of the French company, Accor. (See section C.4 for hotels belonging to TNCs from the South.)

Table II.2. The world's largest hotel groups
(Ranked by number of rooms)

Global ranking	Group	Home country	Number of rooms	Number of hotels	Share of hotels outside home country [a] (%)	Number of host countries with hotels	Number of host developing countries with hotels	Number of host LDCs with hotels
1	Cendant Corp.	United States	553 771	6 624	6	34	29	-
2	Six Continents Hotels	United Kingdom	507 091	3 234	..	100	65	8
3	Hilton Hotels Corporation	United States	475 000	2 700	15[d]	82	48	3
4	Marriott International	United States	427 489	2 333	19	66	44	-
5	Accor	France	415 774	3 654	74	90	61	13
6	Choice Hotels International	United States	362 549	4 545	25	47	21	-
7	Best Western International	United States	312 207	4 109	43 [b]	79	49	1
8	Starwood Hotels & Resorts Worldwide	United States	225 737	751	34 [b]	78	55	4
9	Carlson Hospitality Worldwide	United States	135 429	795	43 [b,c]	66	42	2
10	Hyatt Hotels Corp./Hyatt International	United States	91 657	214	>40	39	27	-
11	Sol Meliá SA	Spain	85 515	347	49	30	17	-
12	TUI Group	Germany	75 397	284	>40	29	16	1
13	Envergure/Société du Louvre	France	69 077	940	6	6	-	-
14	Wyndham Hotels Group	United States	62 262	242	11	11	10	-

Sources: UNCTAD, based on various sources, including annual reports and websites of hotel groups.
[a] Estimates based on annual reports and information provided by respective groups.
[b] Excluding Canada.
[c] Excluding the Country Inn chain;
[d] Includes merged hotels from Hilton International (as on March 2006).

2. FDI concentration in the tourism-value chain

One of the reasons that tourism is not a globalized activity is the narrow range of its sub-activities, for the reasons described in section A above. This is evident in the case of the United States, the world's second largest source of outward FDI in tourism, and the only country that provides comprehensive FDI data at the level of each of the 12 TSA approach activities. In 2004 (the latest year for which this information is available), outward FDI stocks in restaurants and bars totalled \$12,110 million; accommodation stocks were worth \$10,217 million and automotive rental and leasing stocks were worth \$6,396 million. These three activities accounted for 75 per cent of outward tourism-related FDI stock from the United States (table II.3), compared to 84 per cent in 2002; the decrease was proportional to an increase in FDI in transport (including air and water transportation). The other tourism-related activities as defined in the TSA approach accounted for marginal levels of investment, if any. There is little FDI in tour operations, global computer reservation systems or airlines. Although these activities have a tremendous impact, especially in developing countries, they are seldom conducted through FDI or through the physical presence of a TNC; thus they are outside the scope of this survey. However, as they are critical in the tourism value chain, their activities and implications are discussed briefly in annex A.

Table II.3. United States' outward stock of FDI in tourism-related activities, 2004
($ million)

Outward FDI stock in tourism-related activities	**$ million**	**Share of outward tourism in FDI stock (%)**
Restaurants and bars	12 110	31.5
Accommodation	10 217	26.7
Automotive rental and leasing	6 396	16.6
Water transportation (excludes petrol tankers)	2 718	7.1
Support activities to transportation	1 792	4.7
Rail transportation	1 654	4.3
Amusement, gambling and other recreation	1 568	4.1
Air transportation	1 387	3.6
Performing arts, spectator sports	539	1.4
Scenic and sightseeing transportation	-3	0
Travel arrangement and reservation services	46	0
Museums. Historical sites	0	0
Total tourism industry-related outward FDI stock	38 424	100
Total outward FDI stock (all industries)		**Share of tourism in total outward FDI stock (%)**
Total United States outward FDI stock in services (2004)	1 539 522	2.5
Total United States outward FDI stock (2004)	2 018 205	1.9

Source: United States Department of Commerce, *Survey of Current Business* (September 2006), and UNCTAD FDI/TNC database.

Other countries do not provide such comprehensive data on all the TSA activities. Typically, only data for hotels and restaurants and, less frequently, for some forms of transport, are available. It is not always clear whether this is because the country has no significant outward FDI stocks in other categories under the TSA definition, or whether the data is not collected and presented in a way that makes it accessible. On the basis of the picture presented for the United States the former seems more likely the case. The United Kingdom provides information only for hotels and restaurants, as does Canada,[3] the world's third largest source of outward FDI stocks tourism in 2003.

On the other hand, more detailed data are available for France, which is the world's fourth largest source of outward tourism-related FDI stock. Its total FDI stocks in hotels and restaurants in 2003 were valued at $6,143 million, in water transport at $193.2 million and in air transport at $305.6, with similar ratios in host developing countries. France is one of the few source countries providing national data in two dimensions, relating industry classification to geographical host, and the inference is once again that hotels and restaurants dominate in the tourism-related activities. In 2003, of its total tourism stocks in developing countries, approximately $183 million was held in hotels and restaurants, $30.3 million in water transport and $2.53 million in air transport (see annex B, tables 1-4, for examples from other countries).

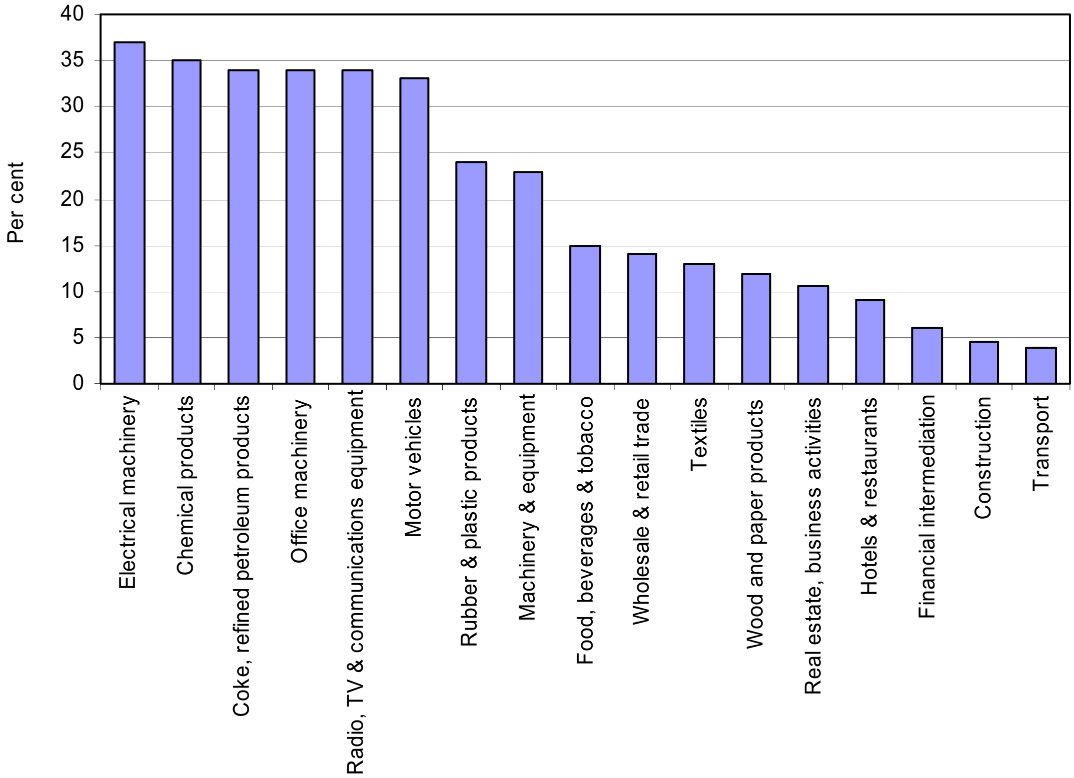
From the perspective of host countries, there is some evidence of FDI in other tourism-related activities. For example, in the Dominican Republic, a (French) TNC has funded 50 per cent of the investment in the development of a new airport; in Peru, a Bahamas-based TNC has purchased the national railway; and in a number of countries, including Latvia, Paraguay and Uganda, there is a small amount of foreign investment in airlines.[4] For the most part however, FDI in developing countries follows the narrow and concentrated path described previously: it is primarily in hotels and restaurants, with less in various forms of tourist transportation.

One of the implications of these characteristics of tourism-related FDI is that the foreign profile of 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 (UNCTAD 2004, p. 108). In the entertainment sector, foreign investment in entertainments that are consumed by tourists is rare: Disneyland and Legoland are exceptions to the usually domestically owned attractions. This means that tourism has few global mega firms with brand recognition and investments on the scale of, say, Shell, Sony or Vodaphone. While a number of well-recognized brand names exist (as shown in table II.2), these firms are not as internationalized as the largest TNCs in other sectors.

Another way to illustrate this lack of globalization is through employment figures. OECD data suggest that in hotels and restaurants, the average share of employment in foreign affiliated hotels and restaurants was only around 10 per cent of total employment in this subsector during the 1990s (figure II.2). This low level of foreign shares is generally reflective of the services sector, as opposed to, say, a number of manufacturing industries. Finally, the share of sales revenue that is attributed to TNC sales is also indicative of the low level of globalization in tourism. OECD data show that the share of sales attributed to foreign affiliates in total national sales in tourism-related activities in OECD countries is low, compared to sales in non-tourism-related activities (annex B figure 3). These two tourism-related activities are primarily the domain of domestic enterprises.

Finally, the level of transnationality[5] is surprisingly low for hotels and restaurants, compared to other activities (UNCTAD 2006a, p. 280). Of the world's top 100 non-financial TNCs ranked by foreign assets in 2002, only one was primarily a tourism-related enterprise – McDonalds Corporation, which falls into the restaurant category of tourism activities. Of its total assets of $27,838 million, the amount held in foreign countries was $20,565 million, and of its total number of employees of 418,000, the number located in foreign countries was 240,142. This put McDonalds in 64th place out of 100 in terms of its transnationality (down from 51st in 2004). There was no hotel or airline TNC in the top 100.

Figure II.2. The employment share in foreign hotels and restaurants, sectoral employment shares, OECD average, 1990s
(Per cent)



Source: OECD (2001).

The other implication of this is that, in developing as well as developed countries, most tourism activities are the domain of local firms, often very small ones. For example, according to UNWTO, "SMEs are very important in the provision of restaurants and bars, handicrafts, the supply of furnishings and other consumables to hotels, the provision of transport, local tour operating, capital and attractions" (UNWTO 2001, p. 65).

C. Developing-country characteristics and trends

1. Scale of FDI in tourism

From the perspective of tourism in developing countries, it is clear that the amount of FDI going to them must be small, given that the value of total global outward tourism-related FDI is low to begin with, and that most of it is absorbed by other developed countries. Historical data on tourism-related FDI stocks held in developing host countries is patchy, but we can extrapolate some key trends from the world's largest sources of outward tourism-related FDI stocks, in particular France and the United Kingdom, which provide data on a country-by-country basis.[6] For the United Kingdom, the world's largest source country, FDI stocks in hotels and restaurants located in developing countries appear to have trebled in value from 1995 to 2003,[7] and now amount to least

$2,013 million, or around 6 per cent of that country's total outward tourism-related FDI stocks. France, the world's fourth largest source country, held $99.4 million worth of tourism-related outward FDI stocks in developing countries in 2004, down from 2003 when the stocks were some $215.9 million, but up significantly from the $4.8 million in 1992.[8] This represents a share of about 1.8 per cent of total French outward tourism-related FDI stocks (compared to around 3 per cent in 2003).

In the case of tourism-related outward FDI stocks from other major source countries, we can work backwards from the available data described above. If we assume that the other developed countries for which data is missing behave in the same way as the United States and EU countries, and given that transition economies attracted considerable FDI in tourism during the 1990s, one can estimate that no more than 10 to 12 per cent of worldwide FDI stock in hotels and restaurants is located in developing countries.

This picture is reinforced by the evidence gathered by the UNCTAD survey of hotel TNCs conducted in 2006 (box II.2). Of the 32 TNCs that responded, 28 provided detailed information about the location of their hotels. Between them, the 28 chains own or control a total of 10,215 hotels worldwide. Around 13 per cent of this total number of hotels, or 1,350 are located in developing countries. This further suggests that developing countries account for a small proportion of the total portfolio of hotels held by the world's main hotel chains. For the LDCs the ratio is even smaller: only 3 per cent, or 38 hotels, are located in these countries.

Box II.3. The UNCTAD survey of TNCs with a presence in the tourism sector of developing countries

The UNCTAD survey was based on a questionnaire sent to each of the world's top hotel groups with a presence (at least one hotel) in developing countries or transition economies. Of the 300 hotel groups listed, 92 had at least one hotel in a developing country (*Hotel Magazine*, 2004). .

The questionnaire was first tried out on two hotel groups with headquarters in Switzerland, and was refined and simplified on the basis of their feedback. It was more detailed than usual for studies of this nature because each TNC had many hotels in many different locations, and under different modes of operation. For example, a medium-sized hotel group could have around 200 hotels spread across 50 developing countries, under full ownership, partial ownership, management *and* franchising operations; and each one required a separate response.

The survey was disseminated electronically and through fax, with follow-up telephone calls where necessary. Out of the 92 hotel groups contacted, 28 replied. Given the complexity of the task, this 30 per cent response rate is positive. Moreover, to improve the quality of the information collected, senior corporate managers in seven hotel groups were interviewed in person, adding further explanatory detail and analysis to the survey results. This information received from the survey and interviews was supported by desk research of annual reports and websites of the surveyed companies.

Box table II.4.1 below shows how the TNCs in the UNCTAD sample (column 3) compare to the grouping of all TNC groups known to have at least one hotel in a developing country (column 2). The sample has a roughly representative proportion of very large hotel groups (making up 7 per cent of the responses, compared to 8 per cent of the "population" of hotels with a presence in developing countries from which it was drawn) (column 2). These very large groups were the most likely of all the groups to have hotels in developing countries. The sample has slightly fewer hotel groups of medium size and slightly more groups of small size. However, this limitation is somewhat overcome by the information available from the detailed interviews with TNC general managers and CEOs. On balance the survey appears to be sufficiently representative of all hotel groups with a presence in developing countries.

/…

Box II.3. The UNCTAD survey of TNCs with a presence in the tourism sector of developing countries (concluded)

Because the sample reflects our particular focus on developing countries, its insights do not necessarily explain TNC behaviour in general. There is a difference in the kinds of TNCs approached, compared to the total population of all hotel TNCs (column 1). TNCs with hotels in developing countries tend to be much larger, on average, than TNCs that have hotels only in developed countries.

Box table II.4.1. UNCTAD sample of hotels with a presence in developing countries

Hotel groups	Global hotel population	Hotels with presence in developing countries: Total no. of hotels (92 groups)	Hotels with presence in developing countries: No. responding to survey (28 groups)
Total number of hotels worldwide	47 726	36 553	10 215
Hotel groups with 1 000+ hotels (%)	2	8	7
Hotel groups with 101-999 hotels (%)	14	24	21
Hotel groups with < 100 hotels (%)	84	68	72
Hotel groups with headquarters in a transition or developing country	18	38	32
Number of hotels in developing countries or transition economies.	Not known	Not known	1 350
Number of hotels in an LDC	Not known	Not known	38

Source: Hotel Magazine, 2004.

UNCTAD surveyed or interviewed 3 of the world's top 5 hotel groups; and 10 of the top 20. This means that 28 per cent of our survey consisted of hotel groups that have 100 hotels or more, whereas groups of this size constitute only 16 per cent of all hotel groups worldwide. Secondly, because of our focus on developing countries only, the sample also consists of a larger than proportionate number of groups with headquarters in a developing country.

The survey is consistent in size to other studies of TNC hotels, including those by Contractor and Kundu (2000) and Chen and Irini (2005). The former covered 26 hotel groups with 487 foreign hotels, and the latter covered 34 groups with 1,134 foreign hotels. However, neither study focused on developing countries, nor did they interview TNC management and strategy advisers.

Source: UNCTAD survey (2006); *Hotel Magazine* (2004).

2. Regional trends in tourism-related FDI

Data on the location of FDI in tourism or on TNC activity is limited, but from the outward data from source countries, it appears that the distribution among regions is rather uneven. For example, both British and French outward FDI stock in tourism is concentrated in Latin America and the Caribbean and Asia, with virtually no stocks held in Africa (table II.4 and annex B, table 7). For both source countries, the share of investments in "unspecified countries" is large, which means that the breakdown of the data should be treated with caution and as indicative only.

Having said this, the UNCTAD survey of hotel TNCs with a presence in developing regions showed similar shares. The largest proportion of the 1,350 hotels in developing countries was located in Latin America (23 per cent of the total) as shown in figure II.3 below. South, East and South-East Asia,[9] transition economies in Europe and North Africa had between 13 and 15 per cent each of the hotels. Southern and sub-Saharan

Table II.4. United Kingdom: Outward FDI stocks in hotels and restaurants
($ million)

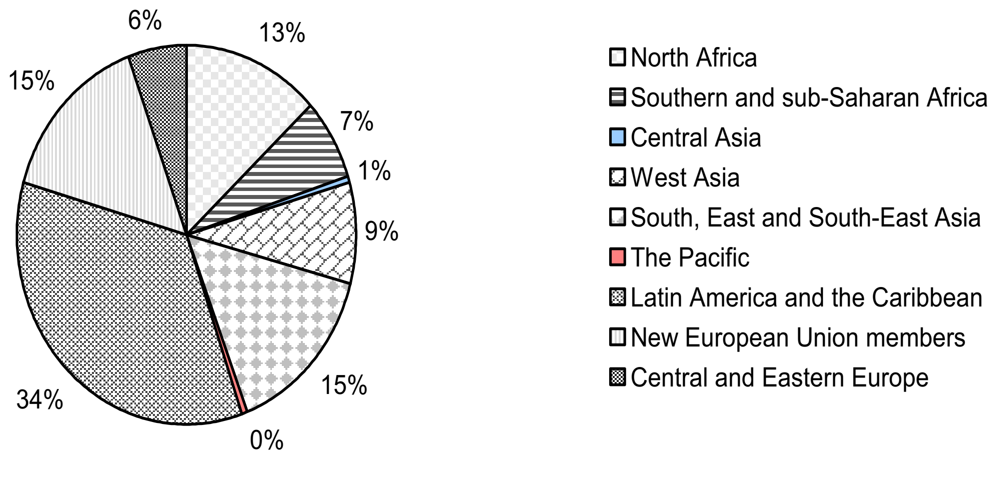
Destination	1995	2000	2003	2004
1. Developed economies	**12 613.9**	**9 380.0**	**33 877.2**	**31 422.0**
Europe	9 506.2	6 046.4	23 979.2	24 351.1
North America	3 090.7	3 333.6	9 898.0	7 070.9
2. Developing economies	**680.5**	**217.9**	**2 013.1**	**898.1**
Africa	0.0	0.0	0.0	0.0
Latin America and the Caribbean	674.3	217.9	2 013.1	451.9
Asia and Oceania	6.2	0.0	0.0	446.2
3. Unspecified	**280.6**	**544.7**	**1 882.9**	**2 084.0**

Source: UNCTAD FDI/TNC database (as on February 2007).

Africa, Central and Eastern Europe and West Asia were less well represented, accounting for less than 10 per cent. Finally, Central Asia and the Pacific each had less than 1 per cent. The total share of most regions is relatively high compared to the picture gained from the outward stock data, and probably reflects the fact that the survey includes some large TNCs from the South.

Another way to examine the issue of hotel location is to see how many developing countries host major TNCs in the hotel business – the inverse of the UNCTAD survey approach. For example, reviewing the portfolios of the world's 22 largest hotel groups (accounting for 75 per cent of the hotels of the largest 100 groups and 53 per cent of their rooms), and taking as a cut-off point the presence of at least 3 groups in a developing country in 2001, produces a total of 54 countries. Using this approach, in terms of regions, Asia leads with 24 countries appearing on the list, followed by Latin America and the Caribbean with 20 countries, and Africa with 10 countries that had at least 3 of the hotel chains present. As shown in table II.5 below, in terms of individual countries, Mexico hosts 18 of the 22 chains. This broad breakdown is similar to that reported in the UNCTAD survey, with 7 of the host countries that appeared in the top 10 in table II.5 also being in the top 10 of the survey sample (annex B, table 6).

Figure II.3. Location of hotels in the UNCTAD survey, by region
(Percentage of total hotels in developing countries, n=1350)



Source: UNCTAD survey of TNCs in the hotel business with at least one hotel in a developing country

Table II.5. Number of world's 22 largest hotel chains with a presence in selected developing countries

Country	Number of hotel
Mexico	18
Brazil	15
China, Indonesia, Singapore, Thailand, Turkey	14
Egypt, Malaysia	13
Dominican Republic	11
Oman	10
Costa Rica, Ecuador, Philippines, Saudi Arabia, South Africa	9
Chile, Colombia, Lebanon, Peru, Republic of Korea, Venezuela	8
Bahamas, Guatemala, Kuwait, Panama	7
Bahrain, Cuba, Cyprus, Viet Nam	6
Cayman Islands, Jamaica	5
Fiji, Honduras, Nigeria, Pakistan, Yemen, Zimbabwe	4
Bangladesh, Cambodia, El Salvador, Ghana, Gabon, Mauritius, Trinidad & Tobago, Qatar, United Rep. of Tanzania	3

Source: UNCTAD (2006), based on websites of major hotel groups.

3. Developing countries' share of tourism-related FDI

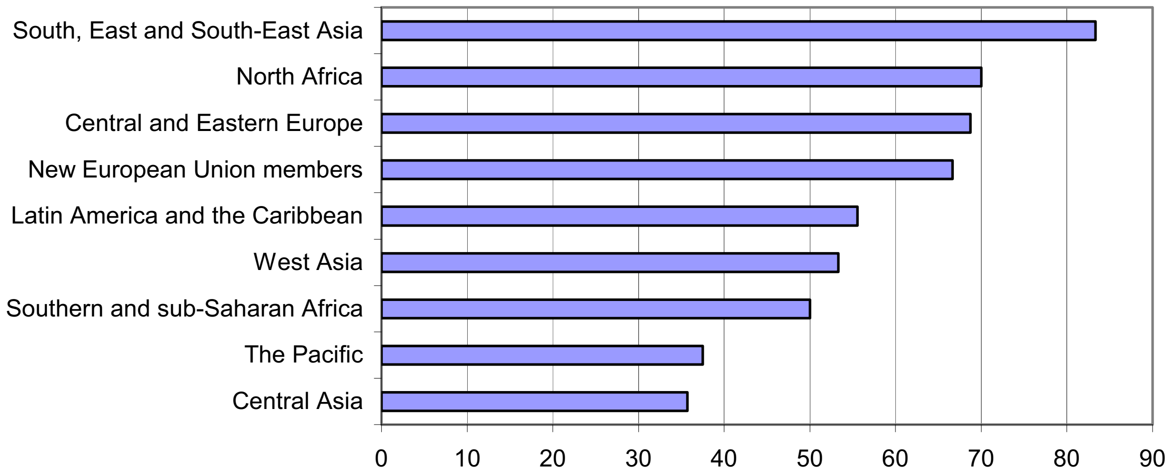
There is some evidence that tourism-related FDI will increase considerably in developing countries over the next decade. Turning first to the UNCTAD survey, respondents were asked if they planned to "decrease", "increase" or "make no change" in the number of hotels they had in each region over the next five years. All responded that they planned to increase, especially with respect to the areas in which they were already located (figure II.4). The highest percentage of expansion plans (over 80 per cent) were in South, East and South-East Asia, but even the lowest proportion – for Central Asia – was well over 30 per cent.

Global data on *greenfield investments* in foreign hotels indicate that there is some reorientation of tourism-related FDI towards developing countries. Table II.6 shows that most of the recent new investments – in terms of project numbers, if not value – are going to transition economies and developing countries, in particular in South-East Europe and the Commonwealth of Independent States (CIS), Latin America and the Caribbean, and China, even though developed countries (notably the United Kingdom and Ireland) are still attracting a significant share of investment. Developing countries as a whole accounted for 71 per cent of all new greenfield investment in hotel projects during the period 2002-2005. Information is not available on the value of investments for all these projects, but of those that did provide this information, developing countries accounted for at least $4,674.9 million of new investments in 2004 alone.[10]

This is a significant number compared to existing FDI stocks in developing countries.

Figure II.4. TNC expansion plans for hotels during the period 2006-2011

(Percentage of firms citing planned increase, by region)



Source: UNCTAD survey of TNCs in the hotel business with at least one hotel in a developing country.

Table II.6. Hotel & restaurant Greenfield FDI projects, by number of projects, 2002-2005

	Host economy					Home economy				
Location	**2002**	**2003**	**2004**	**2005**	**Total host**	**2002**	**2003**	**2004**	**2005**	**Total home**
West Asia	17	33	21	31	102	4	9	7	16	36
South, East & South-East Asia	20	29	23	20	92	6	29	27	13	75
China	7	25	39	8	79	1				1
Latin America	28	36	52	13	129	3	5	5		13
North Africa	13	7	9	11	40		1		3	4
Southern & sub-Saharan Africa	1	6	4	2	13		2			2
South-East Europe and CIS	34	52	34	64	184	4	5	7	8	24
Developing countries, South-East Europe and CIS	**120**	**188**	**182**	**149**	**639**	**18**	**51**	**46**	**40**	**155**
Europe	40	48	51	62	201	110	104	128	110	452
North America	11	10	6	6	33	47	101	65	65	278
OECD, other	7	13	7	4	31	3	3	7	6	19
Developed countries	**58**	**71**	**64**	**72**	**265**	**160**	**208**	**200**	**181**	**749**
Total	**178**	**259**	**246**	**221**	**904**	**178**	**259**	**246**	**221**	**904**
Developing countries' share of total number of new projects (%)	**67.4**	**72.6**	**74.0**	**67.4**	**70.7**	**10.1**	**19.7**	**18.7**	**18.1**	**17.1**

Source: UNCTAD FDI/TNC database, based on information from LOCO monitor database, by number of hotels constructed.

Although the sources of the majority of greenfield projects in developing countries were TNCs with headquarters in Europe (452 projects over the period 2002-2005, mainly in France and the United Kingdom), investors from developing countries and transition economies also featured, accounting for 155 of the total number of projects over that period. Of these, the single most frequently cited source economy was Hong King(China), although other significant sources include Singapore and the United Arab Emirates. For the most part, investors from developing countries tend to invest in their immediate regions: for example, projects represented in table 6 include the Jamaican TNC superclubs, with three new projects in Brazil, the Singaporean chain, Shangri-la Hotels and Resorts, with four new projects in China, and the Estonian chain, Meriton Hotels, with new projects in Latvia and Lithuania. In contrast, TNCs from India are investing further afield, including in countries such as Mauritius, the Russian Federation and the United Kingdom.

The greenfield FDI situation is notably different from the trend in *mergers and acquisitions* (M&As), where tourism deals are infrequent compared to more globalized industries such as electronics or telecommunications. In 2003-2005 only 1.4 per cent of deals were in tourism, the bulk of them in developed countries (table II.l7). Of the 20 largest cross-border M&A deals in tourism since 1987 only one involved a developing economy – Hong Kong (China) – and the value of the deal was not especially high ($907 million). This may reflect the fact that there are now few privatization sales taking place in tourism, compared to earlier years: as in most countries, the State has now significantly withdrawn its control of this sector. A few high profile privatizations that have occurred recently in some developing countries are described in more detail in chapter III and UNCTAD (2007a).

Table II.7. Cross-border M&A deals in tourism, 2003-2005

Target country	Number of deals	Value ($ million)
Total	224	13 678.1
Developed countries	179	12 602.9
South-East Europe and the CIS	6	100.0
Developing countries	39	975.2
of which: South-South deals	22	745.1
M&As in tourism as share of total M&As (%)	1.4	1.0

Source: UNCTAD cross-border M&A database.

On the other hand, evidence confirms that, as with FDI in general, South-South mergers and acquisitions are a rising trend. They accounted for the largest share (by values reported) of all the deals involving developing countries during the period 2003-2005: of the total $975.2 million worth of deals that involved developing-country hosts, $745 million came from buyers who were also from developing countries. A further $100 million involved the transition economies of South-East Europe and the CIS. There was also at least one South-North deal, that of Kenyan Airways which bought Precision Airlines, a United Kingdom-owned airline operating in Kenya.

4. The emergence of South-based TNCs

As indicated in above section, South-South deals are increasingly significant for developing countries as a source of TNC activity in tourism. For example, by the end of 2006 there were four tourism-related TNCs that ranked among the top 100 non-financial TNCs from developing economies, as measured in terms of transnationality. The hotel and motel group, Shangri-La Asia Ltd. from Hong Kong (China) ranked 21, with foreign assets of $4,209 million out of total assets of $5,208 million, and 29 affiliates located abroad out of a total of 31 affiliates (UNCTAD 2006a). The other three in the top 100 were the Singaporean hotel group City Developments Ltd, in 40th place, Singapore Airlines Ltd in 46th place, and the hotel group Hong Kong and Shanghai Hotels Ltd in 91st place.

Similarly, while no hotel-related TNCs from the South yet rank among the world's 15 largest hotel chains, as defined in terms of total number of rooms, they already appear in the global top 100 (as ranked by *HOTELS magazine*), and are growing and internationalizing at a fast pace. As shown in table II.8, there are at least 10 TNCs from the South in the lower half of the global rankings, starting with the Shangri-La chain in 46th place. The Shangri-La group ranks highest in terms of the total number of different countries in which it is located, as well as in terms of developing-country locations only. In addition to two TNCs from Hong Kong (China) and Singapore, there are three from South Africa and one from Mexico; and more would feature if the world list was ranked only by hotel rooms held in developing countries, rather than throughout the world. Developing-country TNCs are also much more likely to have a presence in LDCs. For example, one South African TNC, the Protea Hospitality Corporation, has a presence in five LDCs, in addition to five other developing countries. Moreover, it is not only in other developing countries that developing-country TNCs have a hotel presence: the Taj group from India, for example, manages major hotels in London and New York, as does the Jumeirah Group from Dubai.

Table II.8. Top 10 hotel groups from developing and transition economies, by hotel rooms

Global hotel ranking	Group	Home economy	Number of rooms	Number of hotels	Share of hotels located outside home economy (%)	Number of host economies	Number of host developing economies	Number of host LDCs
46	Shangri-La Hotels & Resorts	Hong Kong (China)	19 658	38	94 (50, excluding mainland China)	17	14	2
58	Jin Jiang Group	China	14 127	53	0	0		-
63	Southern Sun Hotel Interests	South Africa	13 404	80	6	6	6	4
64	Group Posadas Management	Mexico	13 335	67 (78)	21	3	2	-
67	Raffles International	Singapore	12 841	38 (31)	87	16	6	1
73	Protea Hospitality Corp.	South Africa	12 153	127	N/A	11	10	5
74	Cubanacan SA	Cuba	12 130	47	N/A	N/A		-
86	Orbis Company	Poland	10 500	56	0	0		-
87	Group Hotelero Gran Caribe, SA	Cuba	10 436	42	0	0		-
96	Sun International	South Africa	8 532	40	N/A	6	6	1

Source:

5. Trends in tourism-related FDI in individual countries

a. Evidence from stock and flow data

Looking at the FDI situation from the perspective of individual host developing countries is more difficult than the aggregate overview presented above from source countries or from TNCs. Few developing countries collect sufficiently detailed or comprehensive data on tourism-related FDI. During the interviews for the UNCTAD country case studies government officials and investors often mentioned that there was little information about, for example, who owned what in terms of hotels or tourist enterprises. Therefore it is not surprising that it is difficult to trace this information historically or in a statistical form. The limited information currently available about toruism-related inward FDI for selected developing and transition economies in national accounts data and other sources is shown in table II.9.

On a value basis, the largest inward FDI stocks in tourism are held in Hong Kong (China), Singapore, Republic of Korea, Hungary, Thailand, Saudi Arabia, Turkey and Thailand, but virtually all the countries for which data is available have experienced very rapid increases in FDI stock values in recent years. For example, growth was at least 25-fold in Colombia during the period 1985-2000, 18-fold in Hong Kong (China) during the period 1995-2004, 8-fold in the Republic of Korea during the period 1985-2002 and 6-fold in the Czech Republic during the period 2000-2003. Other countries saw growth rates double (e.g. Zambia) or almost double (e.g. Hungary).

In general, the stock of tourism-related FDI was a small proportion of total FDI stock, and in many countries it was less than 2 per cent. However some important exceptions to this include, in order of magnitude, the Dominican Republic, Cambodia, Viet Nam and the United Republic of Tanzania, in each of which tourism FDI stocks account for more than 10 per cent of total FDI.

To help put these statistics in context, it is worth noting that the countries with relatively high FDI stocks in tourism are also all countries with a relatively recent history of tourism- related FDI. It is likely that the relative importance of such FDI in developing countries diminishes as the tourism economy matures and domestic tourism enterprises emerge (discussed in more detail in chapter III). For example, Kenya, Morocco and Tunisia, which have a long history of tourism and of FDI in general, FDI in tourism is a much smaller percentage of total FDI. Even in the United Republic of Tanzania,[11] tourism FDI was dwarfed by mining (40 per cent of the FDI stock) and manufacturing (22 per cent). (See further details of the country studies in chapters III and IV, and annex B.)

b. Evidence from the country case studies

This subsection describes the experiences of some host countries with FDI in tourism in recent years. Further details are available in the country case studies (UNCTAD 2007a, b).

Morocco. The tourism economy of Morocco accounts for 15.5 per cent of total employment and 18 per cent of total gross domestic product (GDP), according to the WTTC (2006), and it is one of the few countries for which both FDI stock and flow data is readily available. The country's FDI stocks in tourism have increased quite significantly, from $403.5 million in 2002 to $658.8 million in 2004. As shown in annex B, table 8, inflows were rather low through most of the 1980s and 1990s, followed by a sudden and dramatic upsurge in 2004 and 2005 (although data on FDI stock for 2006 was not available, it appears to be as

Table II.9. Inward FDI stock, in hotels & restaurants, selected economies

	Hotels and restau-rants	Total inward FDI stock ($ million)	Share of hotels and restaurants: in total FDI stock (%)	Hotels and restau-rants	Total inward FDI stock ($ million)	Share of hotels and restaurants: in total FDI stock (%)	Hotels and restau-rants	Total inward FDI stock ($ million)	Share of hotels and restaurants: in total FDI stock (%)	Hotels and restau-rants	Total inward FDI stock ($ million)	Share of hotels and restaurants: in total FDI stock (%)
	2000	2000	2000	2002	2002	2002	2004	2004	2004	2005	2005	2005
Actual stocks												
Armenia	19.9	631.4	3.2	23.2	868.7	2.7	-	-	-	-	-	-
Botswana	3.2	1 832.5	0.2	23.6	1 440.5	1.6	-	-	-	-	-	-
Brazil	316.6	103 014.5	0.3	-	-	-	-	-	-	-	-	-
Bulgaria	52.8	2 672.7	2	73.6	3 672.6	2	134.5	8 404.5	1.6	176.2	10 608.7	1.7
Cambodia	268.1	1 580.2	17	286.8	1 782.1	16.1	303.6	2 010.4	15.1	329	2 360.3	13.9
Colombia	65.8	19 681.6	0.3	-	-	-	-	-	-	.	-	-
Croatia	114.1	5 192.5	2.2	-	-	-	338.1	10 285.2	3.3	.	-	-
Cyprus	-	-	-	28.5	4 912.3	0.6	-	-	-	.	-	-
Czech Republic	67.4	21 768.2	0.3	450.4	38 962.5	1.2	540.8	57 258.9	0.9	.	-	-
Dominican	-	-	-	-	-	-	-	-	-	1	8 858.9	22.4
Estonia	51.6	2 644.7	2	54.8	4 226.4	1.3	90.9	10 064.2	0.9	44	12 720.6	0.3
Hong Kong	6 101.6	455 469.5	1.3	5	336 278.3	1.6	4 578.4	453 060.0	1	3	523 224.8	0.6
Hungary	253.9	22 869.9	1.1	348.5	36 223.9	1	445	62 687.5	0.7	.	-	-
Kazakhstan	-	-	-	64.9	15 353.8	0.4	-	-	-	.	-	-
Latvia	36.2	2 083.8	1.7	39.4	2 751.3	1.4	56.8	4 575.3	1.2	54.8	4 602.7	1.2
Lithuania	53.5	2 334.3	2.3	59.6	3 981.3	1.5	77	6 388.9	1.2	73	6 460.9	1.1
Macao (China)	-	-	-	135.1	3 253.0	4.2	179.8	3 984.3	4.5	.	-	-
Madagascar	-	-	-	0.3	165.5	0.2	0.5	939.9	0.1	.	-	-
Paraguay	24.4	1 210.0	2	-	-	-	-	-	-	.	-	-
Peru	58.4	12 173.7	0.5	58.4	13 388.7	0.4	62.1	13 891.9	0.4	62.1	14 278.1	0.4
Philippines	2.3	12 809.9	0	2.7	15 099.2	0	-	-	-	.	-	-
Poland	173.5	34 227.0	0.5	-	-	-	-	-	-	.	-	-
Republic of Korea	1 850.8	37 420.8	4.9	1 874.0	44 337.8	4.2	1 780.3	55 949.5	3.2	1 798.9	62 047.9	2.9
Saudi Arabia	108	17 577.0	0.6	-	-	-	-	-	-	144	33 536.0	0.4
Singapore	1 164.3	112 632.8	1	1 334.7	135 390.4	1	1 563.2	166 561.5	0.9	.	-	-
Slovakia	27.5	3 733.0	0.7	-	-	-	-	-	-	-	-	-
Slovenia	17.5	2 893.7	0.6	17.9	4 114.0	0.4	23.6	7 600.0	0.3	30.6	7 054.7	0.4
Syrian Arab Republic	-	-	-	-	-	-	-	-	-	-	-	-
TFYR of Macedonia	5.3	537.8	1	9.5	1 212.3	0.8	-	-	-	-	-	-
Thailand	-	-	-	215	29 708.0	0.7	268	44 636.0	0.6	-	-	-
Turkey	224	19 209.3	1.2	130	16 259.0	0.8	195	29 510.0	0.7	-	-	-
Ukraine	-	-	-	163.3	5 530.3	3	-	9 606.0	-	-	17 209.0	-
United Republic of Tanzania	275.1	3 038.3	9.1	-	-	-	-	-	-	-	-	-
Viet Nam	2 139.1	20 595.6	10.4	2 229.5	26 055.2	8.6	-	-	-	-	-	-
Zambia	18.6	850.7	2.2	-	-	-	-	-	-	-	-	-
Approval data												
Myanmar	1 060	7 395	14.3	1 060	7 501	14.1	1 063	7 750	13.7	1 063	13 816	7.7
Taiwan Province of China	171	44 566	0.4	171	52 967	0.3	1 706	60 494	2.8	1 721	64 722	2.7

Source: UNCTAD FDI database In this table, remove the heading from inside the table and place it outside to run across the top – since all the data refer only to hotels and restaurants, shouldn't the heading be: Inward FDI stock in hotels and restaurants, selected economies? The text in the paragraph preceding this table should perhaps also indicate this, rather than tourism.

half of the total stock of 2004). This rise is also reflected as an increase in the proportion of total FDI attributed to tourism in recent years. The main reason for the sudden increase seems to be the Moroccan Government's new tourism policy, Azur, which proposes a series of new tourist developments for very large public-private partnerships, explicitly targeting foreign investment (chapter IV).

Tunisia. By comparison, Tunisia, which is relatively close to Morocco and shares some of the same sources of comparative advantage in tourism, has seen steady levels of FDI over the years, with a peak in 2001, but nothing like the magnitude of the sudden leaps experienced by Morocco. Unfortunately, since data on FDI stock do not exist for Tunisia, it is not possible to examine how its recent trends compare with those of Morocco, but historically Tunisia, unlike Morocco has received considerable FDI in tourism, especially during the 1970s and 1980s. In Tunisia the tourism economy is estimated to account for 17 per cent of total employment and 18 per cent of GDP (WTTC 2006). Data on FDI inflows are shown in annex B, table 8.

Mauritius. The tourism economy in Mauritius accounts for 26.3 per cent of GDP and 28 per cent of employment (WTTC 2006). During the early 1990s, tourism-related FDI inflows on occasion accounted for almost one third of total inflows, but this share fell to a very low level in the latter half of the 1990s because of large amounts of inward FDI in banking and telecommunications (annex B, table 9). More recently, the tourism sector has been experiencing a new investment boom, with inflows totalling around $12 million in 2005 compared to an annual average for the period 1990-2005 of only $3 million, and with possibly even higher levels in 2006: in the first four months alone tourism inflows of $15.4 million were recorded. It is too soon to say whether the latest upswing in tourism-related FDI will remain as high as is implied by the data for the first few months of the year.

The Dominican Republic. The tourism economy accounts for 21.3 per cent of GDP and 18.4 per cent of employment (WTTC 2006) in the Dominican Republic. The country has attracted much interest, because of its rapid growth as a tourism destination and because of the significant role of FDI in this growth (table II.10). Tourism-related FDI inflows have reached more than 60 per cent of total inward FDI flows in some years, but the share has fallen to around 20 per cent in the last few years. Most of this has been invested in hotels, although the French chain, Accor, unusually, also contributed 50 per cent of the cost of developing an international airport that has opened up a new part of the island for tourism.

6. Factors determining TNCs' decisions on where to locate

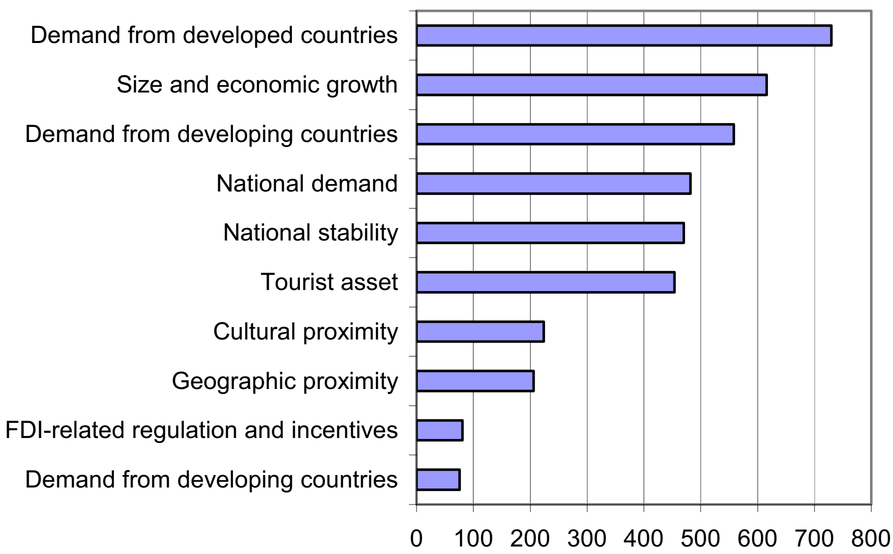
Clearly the decision of hotels on where to locate depends upon the extent of tourism demand for a specific destination, as well as its tourism-specific assets (e.g. natural environment, culture). But the presence of a TNC hotel can also further contribute to tourist demand, and in fact the interrelationship between investors and tourist arrivals can be very difficult to disentangle, especially if attempted years after the process first began. The issue of causation is further discussed in chapter III from the perspective of the host country. For the TNC view, on this issue, the UNCTAD survey asked respondents to select four factors (out of 10 possible ones) that were the most important reasons behind their decision to locate. Figure II.5 below shows their responses, weighted by the number of hotels by region (e.g. if one hotel group with 24 hotels in a subregion identified "tourism asset" as among its top four reasons, its response counts for 24).

Table II.10. FDI inflows in the Dominican Republic, 1995-2002
($ million)

	1995	1996	1997	1998	1999	2000	2001	2002
FDI inflows by industry								
Primary (mining & quarrying)	0	0	0	0	0	0	6.8	10.1
Secondary	0	0	0	0	40.5	42.5	72.6	45
Tertiary:	414.3	96.5	420.6	669.6	1 249.8	826.8	976.4	899.2
Production/distribution of electricity	0	7.5	42.9	33.4	631.4	281.9	401.9	205.1
Construction	0	0	0	0	0	0	0.2	16.8
Trade	140.8	59.8	216.5	177.4	182.6	153.7	166.6	218.2
Hotels & restaurants	**111.2**	**61.2**	**114.2**	**312.2**	**296.9**	**73.7**	**155.3**	**196.1**
Transport & storage	149.3	-36.2	32.8	117.1	98	272.2	237.3	238.1
Post & telecommunications	149.3	-36.2	32.8	117.1	98	272.2	223.3	223.1
Finance	13	4.2	14.2	29.5	40.9	45.3	15.1	24.9
Unspecified	0	0	0	30.2	47.5	83.6	23.3	6.8
Share of tourism in total inflows (%)	**26.8**	**63.4**	**27.2**	**44.6**	**22.2**	**7.7**	**14.4**	**20.4**
Total FDI inflows	**414.3**	**96.5**	**420.6**	**699.8**	**1 337.8**	**952.9**	**1 079.1**	**961.1**

Source: UNCTAD FDI/TNC database (as on June 2006).

Figure II.5. Reasons for TNC hotel s' choice of location in a developing country
(Frequency cited by respondent, times number of hotels)



Source: UNCTAD survey, 2006.

The single most important factor cited was demand from developed-country tourists; and when the responses are studied at the regional level, rather than in aggregate, it was notable that the countries that had the largest numbers of TNC hotels overall (Latin America and the Caribbean, S and SE Asia, transition economies and North Africa), were also likely to be associated more with tourism from developed countries than from developing countries.

However, as shown below, the demand from developing-country tourists, calculated by adding together "national demand" (i.e. the demand in the developing country in which the hotel is located) with "demand from developing countries", is also important. Indeed, this combined demand by developing-country tourists ranked third overall as a reason for location.[12] In UNCTAD interviews, as an example, a number of TNC chief executive officers (CEOs) said they planned to invest in China in order to tap the emerging *domestic* tourist market. Significantly, they did not mention China's hosting of the Olympic Games in 2008, which might have been a conflating factor. Other investors expressed their intention of targeting the emerging market for domestic business tourism in Africa. This reinforces recent findings that regional and South-South tourism among developing countries is challenging the more traditional vision of tourism as a North-South phenomenon (UNCTAD 2006, Ghimire 2001).

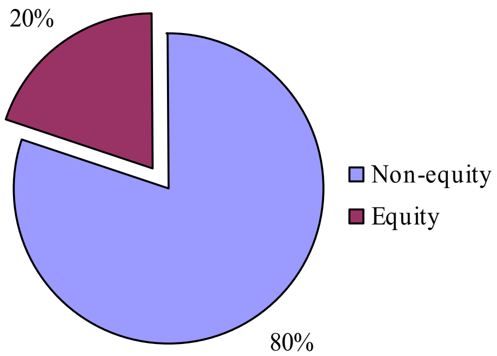
Interestingly, only a small number of hotels reported that government policies and incentives for FDI had been an important determinant in their location decision. This result also holds when the responses are analysed at the group level.

D. Equity vis-à-vis non-equity modes

Hotels with foreign names remain one of the most visible symbols of FDI in global tourism in developing countries, but appearances can be misleading. As noted in the *World Investment Report 2004* (p.106), there is increasingly less reason to assume that just because a well-known chain runs a hotel, it also owns it. As in many service industries, franchising, leasing and management contracts are becoming more popular forms of TNC participation, while equity purchase and ownership are decreasing. A number of studies have examined this phenomenon for hotel groups in general (e.g. Contractor and Kundu 2000), but none have had an explicit focus on developing countries.

The UNCTAD survey found that of the total number of hotels located in developing and transition economies, 80 per cent are under non-equity modes of operation, namely management contracts, franchises or leases (figure II.6). In only 20 per cent of hotels do the TNCs have an equity stake, of which approximately half are joint ventures and the other half are wholly-owned. In the LDCs where respondent TNCs have hotels, equity investment occurs more frequently, accounting for just less than half of the 38 hotels. However it is not clear whether these are partial or full equity investments, and non-equity modes still account for 57 per cent of the total hotels.

Figure II.6. Modes of operation of hotels in developing and transition economies



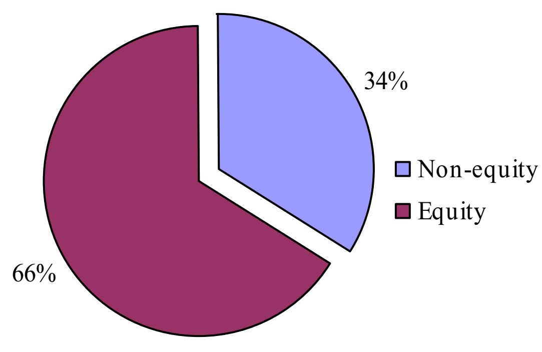
Source: UNCTAD survey, 2006.

This finding of the predominance of non-equity modes in developing and transition economies is supported by evidence at the level of individual countries. In Africa in general during the 1990s, the most common form of involvement of international hotel chains was through a management contract. According to one study, in Kenya, 70-80 per cent of major hotels located along the coastline, Nairobi and the national parks and reserves had some foreign capital, but fewer than 20 per cent were wholly-owned by foreigners (Christie and Crompton 2001). By 2005, foreign capital appeared to be even less evident, according to UNCTAD research in Kenya, Tunisia and the United Republic of Tanzania, for example, where many of the hotels that had a foreign brand name were in fact locally owned (chapter III, and UNCTAD 2007b).

The importance of non-equity forms can also be traced from information on individual hotel chains with a presence in developing countries. For example, Accor, with the second largest network of hotels in developing countries (table II.2), mostly uses management contracts, under which it manages a hotel under its own brand name for an owner, who can have access to Accor's booking systems, marketing and expert skills for a fee (Accor annual reports). Similarly Cendant, the world's largest hotel group, based in the United States, comprising nine hotel brands, over 6,500 hotel properties and with a presence in 17 developing countries,[13] operates only through non-equity arrangements (UNCTAD interviews, 2006).

However, the UNCTAD survey reveals that among hotel groups with headquarters in developing countries the proportion appears to be reversed (figure II.7): they use equity modes more than non-equity ones – as much as 66 per cent equity compared to 34 per cent non-equity. Moreover, for the most part, it is full rather than partial equity. The counter-point to this is that when the investment modes of the TNCs from developed countries are considered separately, rather than in aggregate with all TNCs as in figure 2b above, this raises the developed-country groups' non-equity proportions from 80 per cent to 84 per cent, further reinforcing the distinction between those from the North and the South. This result may be significant for countries that wish to attract equity capital, in addition to the other non-financial assets of international hotel chains described above. Rather than focusing only on attracting the traditional hotel chains from the North, they may need to turn their attention also to the newly emerging chains and private investors from the South.

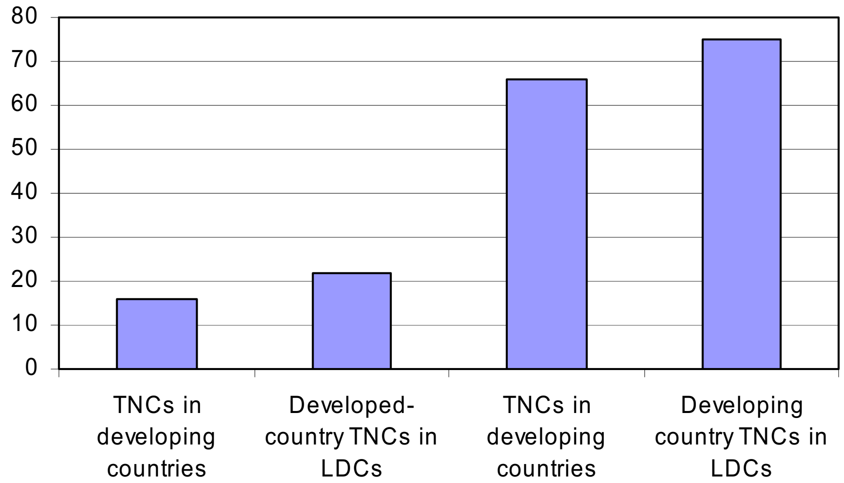
Figure II.7. Modes of operation of hotel groups with headquarters in the South



Source: UNCTAD survey, 2006.

This does not seem to be caused by group size or scale[14] and, on the basis of the sample, it appears that TNCs from the South are different from TNCs from the North, be they large or small. This difference is especially marked when hotels are located in LDCs, where TNCs of developing countries contribute equity to 75 per cent of hotels while developed-country TNCs have equity in only 22 per cent of hotels. The survey shows a gradual rise in equity holdings as hotel ownership and location in developing and transition economies increases (figure II.8).

Figure II.8. Equity shares of TNCs in developing countries and LDCs
(Percentage of TNC hotels under equity holding)



Source: UNCTAD Survey (2006a).

1. Reasons for choosing non-equity modes of ownership in developing countries

In general, five main factors appear to have contributed to the high levels of non-equity involvement in global tourism investment, in developed as well as developing countries. First, as mentioned at the start of this chapter, the critical competitive advantages of firms in the hotel industry often relate to knowledge-based, intangible assets rather than tangible ones. These include managerial and organizational expertise permitting, for example, a consistent range and quality of services across locations in many different host countries. Associated assets might include globally recognized brand names, access to, and use of, global reservation systems, and scale advantages in purchasing hotel equipment and other goods and services for customers. Second, these intangible assets are separable from tangible and capital-intensive ones (such as real estate), and can be protected (through contracts and other means), thereby facilitating the possibility for non-equity based agreements (UNCTAD 2006a, Contractor and Kundu 2000, p. 300). Third, non-equity agreements enable the separation of management risk from investment risk. According to the UNCTAD interviews, this appeals to many TNCs not least because of the relatively high equity-to-debt ratio typical in the hotel industry (as high as 50:50 for some developing countries). Fourth, contracts can be sufficiently detailed to cover the design, style and layout of a hotel, the size of and equipment in rooms, as well as additional facilities such as swimming pools or car parks – features that can influence the quality and potential profitability of the hotel (and ensure that the value and reputation of a TNC brand is not threatened as in situations where foreign investors do not directly own the operations). A final factor is a host country's policy. In the past, many developing countries had a strong preference for control of physical assets, including hotels, on their territory. They therefore preferred local ownership, sometimes in joint ventures with foreign investors, leading to the establishment of non-equity forms. Nowadays, however, with the liberalization of FDI policies and intense competition for FDI, circumstances have changed. Many countries seek not only the presence of international hotel chains, but also capital investment by them. As a result, in a more liberal investment climate, companies have a greater choice of the modes of entry.

The use of a *management contract* in the hotel industry is the closest type of mode to an equity arrangement in the sense that the foreign enterprise has control over the management of the enterprise (see box II.4 for definitions of these modes). TNC control is minimized when it has a *franchiser contract* with a local investor, and for this reason franchising appeals more to local entrepreneurs with some experience in the industry and who wish to retain as much control (to make profits, or incur losses) for themselves as possible. Even then, however, there will still be a number of avenues through which the foreign hotel chain can exercise influence or control over the local investor's behaviour, not least by providing the global distribution system through which the investor gains access to the international tourism market. From the perspective of TNCs, their reasons for choosing to be associated with local investors in developing countries via a management contract rather than a franchising operation, or indeed an equity investment, vary according to a number of factors, as shown in figure II.9 below.

Box II.4. Non-equity modes defined

Equity involvement can be divided into wholly-owned equity, where the TNC owns the entire hotel, or partial equity, where the TNC owns a share in conjunction with a local partner. In some cases the local partner may be a government, reflecting the historical trend in many developing countries where many hotels were State-owned.

Not all the survey respondents provided detailed answers to this question, but on the basis of those that did, slightly more than half the hotels with equity involvement were wholly- rather than partially-owned. Interviews with the heads of the largest TNCs confirmed a general aversion to minority holdings in hotels, some describing this as "dead capital". In the rare cases in which they had taken a small share in the total equity, it was usually because the local partner required it as a demonstration of commitment. However the respondents to the UNCTAD interviews said that this is not a particularly powerful incentive, because in most cases the hotel group is so large that the amount of equity committed is too small to have any significant effect on their incentives or actions. The injection of capital may, on the other hand, have a significant impact on the local partner.

In the non-equity modes, the two most common are management contract and franchising. Under the management mode, the TNC acts as manager of a hotel for a generally local owner. Contracts vary, but most include providing an internationally recognized brand name and booking system, in addition to day-to-day managerial operations. Usually, the management team comprises a small group of senior managers (say three to five people) who employ and train local employees. In a franchise contract, by contrast, a local owner buys the right to use the brand name, marketing systems and reach, but does not expect the franchising company to provide day-to-day managerial or operational control.

/…

Box II.4. Non-equity modes defined (concluded)

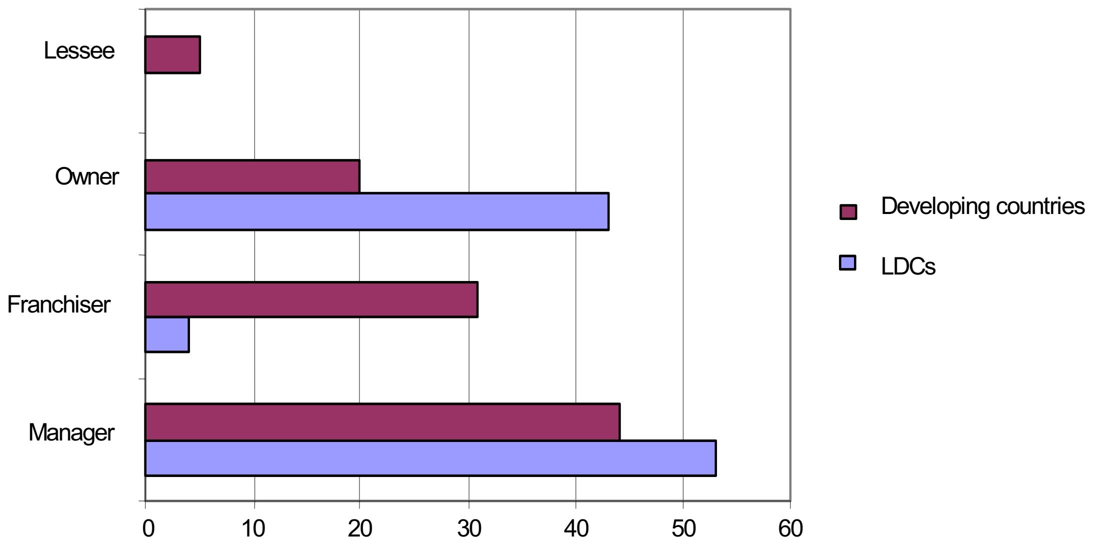
Many investors employ both franchising and management contracts at the same time from two separate TNCs. In some African countries, for example, the American-owned chain, Holiday Inn, has been the franchiser for hotels that are managed by the South African-owned chain, Southern Sun, but owned by local investors. Southern Sun also owns and manages its own hotels, but in this case it assumes the role of manager and franchisee, on behalf of the local owners.

The relative revenues and profits that derive from franchising vis-à-vis management can vary, depending on the nature of the contract and the relative skill of the operators. For example, a franchising arrangement will not necessarily create more profits for a hotel's owners than a managerial one. This depends on the skill of the managers in maximizing revenues and minimizing costs. Whether the local owner or the foreign manager is better or worse at this depends on their relative skills and experiences. With franchising, local owners have more day-to-day control, as they are acting more like hands-on entrepreneurs; but whether this leads to higher or lower profits cannot be predicted a priori.

Franchising and management contracts are an increasingly important way for investors in developing countries to link into the global economy.

Source: UNCTAD survey and interviews, 2006.

Figure II.9. Varying roles of TNCs' between developing and least developed countries

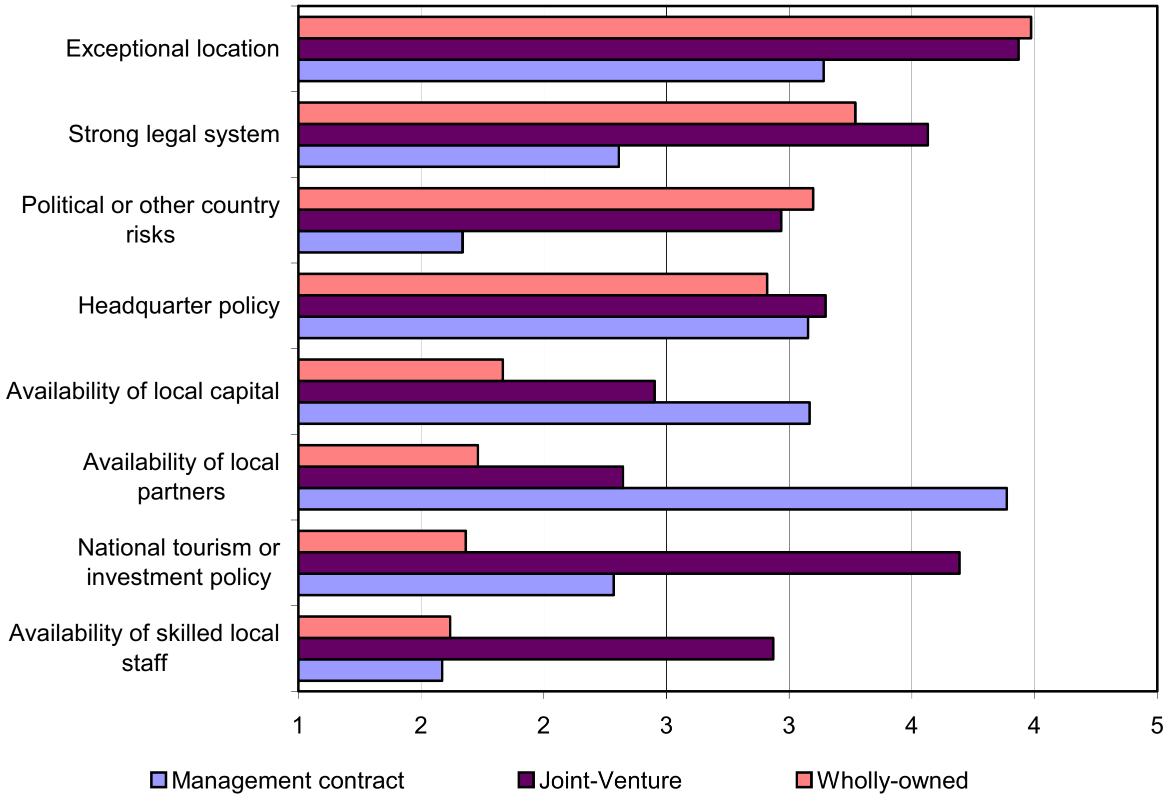


Source: UNCTAD survey (2006).

In the UNCTAD survey, management contracts occurred 44 per cent of the time; but franchising modes were relatively rare, especially in countries that are new to international tourism, or that lack strong local partners and local management expertise (figures 10 and 11). This latter group includes LDCs, but also newcomers to international tourism markets such China, where international hotel investors said that local managers were not yet ready to "go it alone" (UNCTAD interviews, 2006).

The most important reasons that the survey respondents cited for choosing equity investments rather than non-equity modes included "exceptional location" and the existence of a strong legal system to protect property rights (figure II.10). The high priority given to location particularly relates to prime or unique properties, and even firms that normally eschew equity investments mentioned the need sometimes to buy property to secure a guaranteed place in a prime location, such as a "gateway city" (UNCTAD interviews, 2006).

Figure II.10. Reasons for choosing modes of operation
(Average ranking in order of importance)



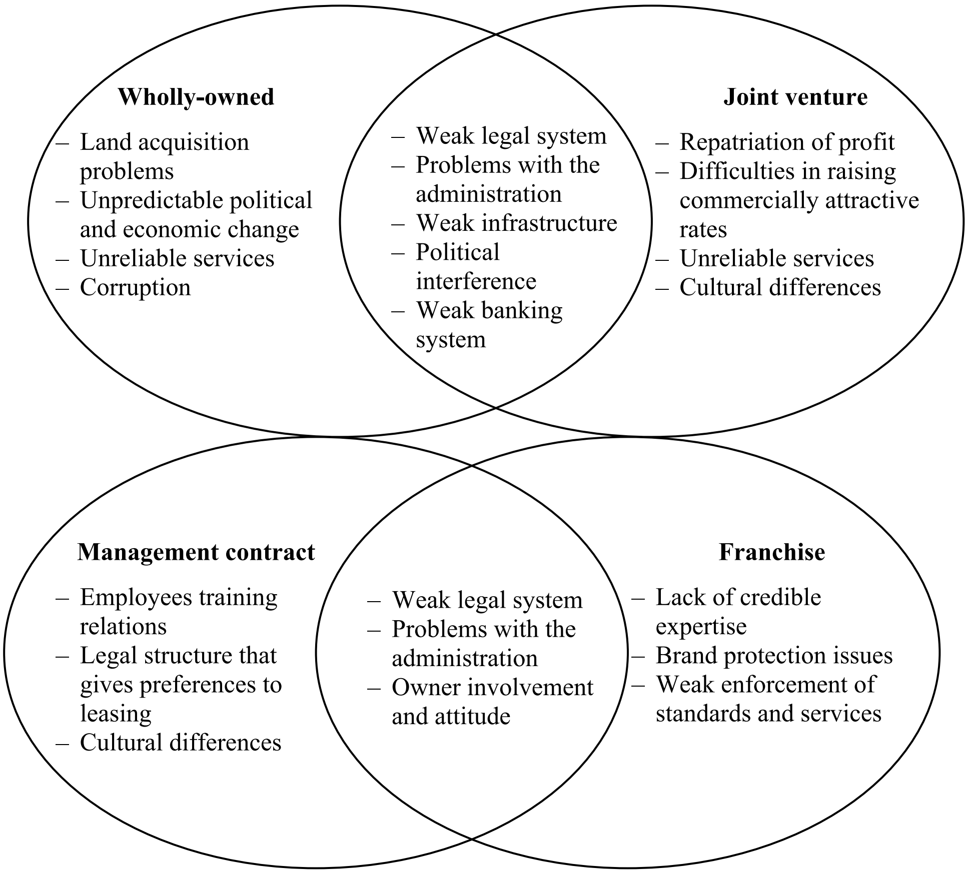
Source: UNCTAD Survey (2006).

Comparing joint-venture to wholly-owned operations, national investment policies were markedly more important in the joint-venture mode, perhaps reflecting the fact that in some developing countries this is a legal requirement for foreign firms to enter new markets. The availability of local partners, local capital and skilled local staffs were also mentioned as more important for joint ventures than for wholly-owned operations. These features, however, ranked relatively low compared to their importance in non-equity modes.

The most obvious difference for non-equity modes compared to equity investment is that finding local partners is critical**.** Respondents gave this top priority for both management and franchising operations, but it was rated much less important in the equity modes. Interestingly, it was ranked low even in the joint-venture mode, which is surprising. The main factors cited by hotel groups in determining whether their presence should take the form of a franchise or a management contract included availability of skilled local staff, the existence of a strong legal system and availability of local capital. These factors were reportedly more significant for franchising operations than for management contracts. The policy implications of this are described in subsequent chapters of this monograph, but, briefly, it suggests that countries that wish to attract more foreign hotels need at least to strengthen their local capacity to provide partnerships.

We can also gain a picture of why firms choose equity ownership rather than non-equity ownership from the various problems they cited, associated with each mode. The UNCTAD survey included an open-ended question, asking respondents to describe problems they experienced related to their chosen modes of operation. Many of these problems are similar to those cited in other sectors of the economy, rather than just tourism, but it is interesting that they readily divided into two groupings, depending on whether hotel ownership was through equity or non-equity modes, as shown in the intersecting Venn diagram below (figure II.11). Many problems appeared common to both wholly-owned and joint-venture respondents; and many problems were shared in common by management contract and franchising respondents, but there were only two kinds of problems in common with all four modes: a weak legal system and poor administrative structures.

Figure II.11. Problems cited by respondents, for different modes of operation



Source: UNCTAD survey (2006).

Unreliability of services was mentioned as a problem in all modes except for the management contract mode, which is unsurprising given that the whole point of a management contract is to prevent such problems. Respondent firms with equity investment said that weak infrastructure, political interference and a weak banking system were specific problems encountered. For those with non-equity investments, owner involvement and attitude was mentioned as the major problem, while cultural differences between owners and managers was the major problem for firms with joint venture and management contract modes, which is unsurprising given the closeness of the relationship between both parties and the potential for misunderstandings between cultures. In addition, a number of hotel chain CEOs interviewed cited problems with owners (sometimes government owners) that "interfered too much" and those that were unwilling or unable to make the capital investments that managers required, for example for refurbishment.

Some problems were particular to each mode of operation. Difficulties with respect to acquisition of land, corruption, and unexpected change in the political and economic environment were cited for the wholly-owned investments. Difficulties with repatriation of profits and in raising local capital at commercially attractive rates were cited only in the case of joint ventures. Employees' training and the existence of a legal structure that gives preference to leasing were problems related to the management contract. For franchise operations, the lack of credible expertise and brand protection were described as problematic issues. The policy implications of these are discussed in chapter IV.

E. Conclusion

The available evidence suggests that there is rather less FDI in tourism than is generally believed, and it is small compared to FDI in other activities. For the largest source countries, it accounts for no more than 2.5 per cent of total outward FDI stocks. Moroever, it is concentrated mainly in hotels and restaurants, with relatively little in airlines (although this is growing), and very little in tour operations or global reservation systems. This may be partly because it only occurs when the ownership advantages of the firm coincide with the location advantages of operating in a foreign country, *and*, simultaneously, when the benefits of internalization (of operations within the firm) outweigh the benefits of arm's-length relationships such as managerial contracts. In tourism, it seems relatively easy to protect ownership advantages through contracts, and hence non-equity modes of TNC activities dominate rather than conventional equity ownership.

Reflecting these considerations, this chapter finds that FDI in tourism typically accounts for a small proportion of inward and outward FDI stocks and flows, compared to mining, manufacturing and other service activities. It is one of the least globalized activities in the world. Other measures of TNC activity, such as employment and sales figures, or the presence of TNC hotels, also indicate that the majority of assets in tourism are held by domestic and not foreign investors.

At present, in terms of the world's major sources of FDI in tourism, the share of such FDI going to developing countries is small. Although it has been growing fast in developing countries, it is still primarily concentrated in developed countries. It is likely that as much as 90 per cent of it is between developed countries. For the United Kingdom, the largest source country for FDI in tourism, developing countries account for around 6 per cent of total outward tourism-related FDI stocks, and for an even lower share of such stocks from other source countries.

However, this does not mean that tourism-related FDI is unimportant. First, national accounts data of tourism-related FDI are likely to significantly underestimate the true extent of TNC activities in tourism. Second, even relatively small capital flows can have a large impact, especially in host developing countries. Third, indications are that tourism-related FDI is likely to increase significantly over the next few years; even though it is at low levels at present, such FDI appears to be in a "boom" phase, and is increasing in virtually all regions of the world. It has been particularly marked in developing countries: in many, inflows and stocks have doubled or trebled in value, and increased as much as 10- to 20-fold in others.

Moreover, respondents to the UNCTAD global survey indicated that they expect to increase their presence – through both equity and non-equity participation – in the next five years in all developing regions of the world.

In terms of hotels, the UNCTAD survey estimates that about 13 per cent of TNC hotel portfolios are located in developing countries. These hotels are located primarily in Latin America and the Caribbean, although Asia is also a growing destination. There are relatively few TNC hotels in Africa and the Pacific. However, the trend is that in all locations their presence is likely to increase in the next five years. All the TNC investors surveyed indicated that they intended to increase their presence in developing-country regions in which they already have hotels. Greenfield investments are the most common form of tourism-related FDI; there are few M&As, partly reflecting the relative scarcity of available assets (including from privatizations). Of those M&As that do occur, however, South-South deals are a growing phenomenon.

Indeed, the growing contribution of South-South investment in the industry is another significant finding of the UNCTAD survey. Southern TNCs are gaining a notable presence, primarily in the developing regions in which they are located, but there are also some high-profile examples in the top price brackets in New York, London and elsewhere. TNCs in tourism from developing may also be of particular interest to developing countries that wish to attract equity capital, in addition to non-equity elements of the FDI package, such as skills and access to markets. These hotel chains appeared to be more likely to bring equity capital in addition to the other non-equity elements of the FDI package, than were developed-country hotel chains. In part, this reflects the fact that firms from other developing countries have a competitive advantage in the special environment of LDCs, compared to developed-country firms. In addition to M&As, TNCs from developing and transition economies are also very active in greenfield investments in tourism FDI and, based on their responses to the UNCTAD survey, they may also be more sensitive to government policies and incentives that are designed to attract FDI.

Returning to the issue of non-equity modes of TNC operation, UNCTAD research suggests that there may be a higher proportion of such modes in tourism-related FDI than previously recognized. In general, the large majority of TNC hotels in developing countries utilize management contracts as their primary mode of operation, rather than equity investment. The exception to this is in LDCs, where TNCs are more likely to have equity investments. It was also found that developing and transition economy TNCs contribute equity to 75 per cent of hotels in LDCs, compared to only 22 per cent of hotels by developed-country TNCs. This may be encouraging for those LDCs that wish to attract more FDI in tourism, but not for countries that prefer to keep tourism assets under local ownership. It can also be seen as a sign that policies to boost domestic partnership capacities are needed.

Other non-equity modes are less common than management contracts. Franchising, for example, is seldom used in developing countries, especially in LDCs. According to information gathered from UNCTAD interviews, this is primarily because of the limited skills and experience available locally in those countries. With time, and as local entrepreneurs become more familiar with the international tourism market and its expectations, it can be expected that local investors will establish more links with TNCs through franchising operations. This may be of interest to countries that wish to boost their domestic entrepreneurship while at the same time benefiting from the global reach and scale of TNC hotel chains.

Finally, problems and difficulties mentioned by survey respondents varied by equity and non-equity forms, such as management contracts: equity investors complained primarily about weak infrastructure, political interference, and weak banking and financial systems.

Notes

1 As shown in chapter III, it is also low compared to domestic investment in tourism.

2 Based on UNCTAD FDI/TNC database and evidence from selected developing-country investment promotion agencies.

3 For Canada and France and most of the other countries cited in this report, the latest data available is for 2003 or 2004.

4 UNCTAD FDI/TNC database and country case studies (2006).

5 A measure comprising the share of total assets, total sales and total employment that is located outside the home country.

6 Unfortunately neither the second largest source (the United States) nor the third largest (Canada) provide data on a country-by-country basis, and so their share in developing countries cannot be estimated in the same way.

7 Caution is required in interpreting this because of the large share of stocks located in “unspecified” countries in the most recent years for which data is available.

8 In this case the share attributed to “unspecified” countries is low for the most recent years, but was a large proportion of stock in earlier years; thus it is not clear how trends have changed over time.

9 Countries included in each regional definition are listed in annex C.

10 This amount exceeds the total value of the stocks listed as being held by the United Kingdom or French investors in 2003. Moreover, it is possible that some of the greenfield investments for which data is presented have not yet been completed, and so do not yet appear in national stock data.

11 Source: Bank of Tanzania and the Tanzania Investment Centre, 1999 census of FDI.

12 If the responses are calculated on the basis of the hotel group, rather than the number of hotels, demand from developing countries moves from the third to the top spot. However this method gives undue weight to small hotel groups, because a group with 10 hotels in developing countries is then given the same emphasis as a group with 1,000 hotels. Given that we are interested in the development implications of TNC activities, the number of hotels matters. Hence only the hotel-based analysis is repeated at the level of the individual regions, for which further information is given in UNCTAD (2007a, b).

13 Argentina, China, Colombia, the Dominican Republic, Ecuador, Egypt, India, Jordan, Malta, Mexico, the Netherlands Antilles, Oman, the Philippines, Venezuela, the United Arab Emirates, South Africa and Uruguay.

14 For example, although all the TNCs in the South are small (having fewer than 100 hotels each), the pattern of dominance of equity ownership does not hold when we look only at small hotels from the North. For the nine small hotel TNCs headquartered in the North that provided this data, non-equity modes continue to dominate (66 per cent), and equity modes are much less frequent (34 per cent).

Chapter III

The Impact of FDI in Tourism: Creating and Capturing Value

Introduction

This chapter presents evidence to show that the impact of tourism-related FDI can vary according to specific country and historical contexts. It finds, for example, that much depends upon the host country's level of economic and human development, including the extent to which it can leverage the presence of TNCs to foster domestic enterprise. This ability is related to host countries' absorptive and productive capacities, which in turn is associated with the extent to which foreign enterprises have linkages with the domestic economy, be it in ways that are complementary or competitive vis-à-vis local companies. These elements can, to some degree, be influenced by government policy and are also further discussed in chapter IV. Another factor influencing the impact of FDI, and over which a host country has much less leverage, is the motivation and corporate strategy of the TNCs themselves, although UNCTAD found that there was less variation in these between global hotel chains than might be expected.

Another way of expressing this is that the effect of tourism-related FDI depends on: (i) the extent to which TNCs contribute to the *creation of value* in a host country, and (ii) the extent to which that value is *captured* by domestic enterprises and the government (e.g. in taxes), as well as by TNCs. We explore these two themes in this chapter, using a number of practical indicators to investigate the impact of TNC activities on the host economy. The impact is examined, where possible, in both absolute and relative terms. The indicators used include, for example, the effect on capital formation, employment generation, skills and technology transfer, and company linkages – upstream and downstream – in the tourism value chain.

The focus in this chapter is always, to the extent possible, on the impact of tourism-related FDI, and not the impact of tourism per se. To do this, UNCTAD designed a simple analytical framework that brings together tourism and FDI literature, in order to isolate the effects of tourism-related FDI. This approach was applied in a number of developing-country cases at the affiliate level, as a complement to the survey of TNC headquarters. The findings from these case studies helped to supplement the limited information available in national accounts data and the general literature (box III.1).

Some of the country experiences of FDI proved to be in line with our prior expectations, but others were relatively surprising. We also found evidence that indirect impacts of TNCs in tourism may be as important as direct impacts, reflecting tourism's cross-cutting nature and its many levels of interconnections with the physical, social and cultural environment. Moreover, both direct and indirect impacts appear to be sensitive to time; thus, FDI seems to be the most critical in countries that are relatively new to global tourism, but relatively less significant in more "mature" destinations.

These findings are described below, and summarized in tables 1 and 9. However, they need to be seen within the wider context of the role of FDI in the development of host economies (UNCTAD 1999a). FDI can be a dynamic resource that can affect development by complementing domestic investment and promoting trade and transfers of knowledge, skills and technology. The fact that it involves a package of assets can be particularly important in services such as tourism, where the "software" of human skills and innovation can matter as much as the "hardware" of physical and financial capital. However, TNCs do not substitute for domestic effort; they can only provide access to tangible and intangible assets and catalyse domestic investment and capabilities. In a world of intensifying competition between new as well as traditional tourism locations, and accelerating technological change and innovation in the kinds of tourism products offered, this complementary and catalytic role can be very valuable, but it is not a panacea, and will not on its own prevent the marginalization of developing countries and LDCs.

Box III. 1. UNCTAD country case studies

Countries for case studies were selected with guidance from an UNCTAD Expert Meeting held in Geneva in 2005, attended by tourism and FDI specialists and practitioners. The meeting discussed the broad issues of FDI in tourism from a development and poverty-reduction perspective, and identified likely methodological challenges of the work as well as some approaches to dealing with them.

There was considerable debate about which countries should be studied. Since the effects of tourism-related FDI were believed to be sensitive to market scale, the level of economic development and historical experience, it was decided that the sample should include LDCs as well as developing countries, countries that were new to tourism-related FDI and those with a long history of it, and countries with FDI in mass tourism as compared to FDI in low-volume tourism. In some instances pair-wise comparisons were possible: for example, the United Republic of Tanzania is new to tourism-related FDI and has a relatively niche market approach, while its neighbour, Kenya, has a long history of such FDI and a more mass-market approach. Morocco could be compared with Tunisia in a similar way. Bhutan offered a rare opportunity to observe the first steps of tourism-related FDI, as the first foreign hotels entered that country only as recently as 2005.

The countries examined are listed in box table III.1 below. The research used questionnaires and interviews, to supplement and extend available official data. Interviewees included investors and hotel managers, firms that supplied hotels, transport firms, tour operators and agencies, public policy makers, and social groups with an interest in tourism and development. Typically, 40 to 50 interviews were conducted in each country.

Questions were asked about tourist demand, capital formation, employment effects, use of technology and technology transfer, corporate and competitiveness impacts, and impacts on the value-chain as measured through procurement practices. Questions were also asked about the environment and corporate social responsibility. In addition, interviewees were asked open questions and given the opportunity to elaborate more freely on issues.

In most countries, the population of foreign enterprises was relatively small, and in some cases almost all firms could be interviewed. In others, a sample was selected, favouring the four- and five- star classifications where FDI was common . Domestic firms were selected at a similar size and level of the market as the foreign ones; however, this was not always possible as foreign firms are frequently larger and operate in a higher price bracket. In some countries, there was considerable debate about whether non-indigenous citizens should be described as “local” or “foreign”, and how to treat individual owners (e.g. did a South African owning a bed-and-breakfast in the United Republic of Tanzania count as FDI?). For the most part such small operations were excluded from the study, although they will be reported on in the second phase of the work that covers East and Southern Africa.

Firms ranged in size from small family operations to large enterprises (including hotels employing hundreds of people and operating hundreds of rooms). The relevant markets were mostly in the upper and mid-price ranges; few foreign firms operate at the low-price end of the market. The locations of enterprises interviewed include capital cities, coastal resorts and wildlife areas. The interviews took place between August 2005 and November 2006.

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Box III. 1. UNCTAD country case studies (concluded)

Box table III.1. The sample group, including phase II countries

Tourism strategy/FDI experience	**Long history of tourism FDI**	**New to tourism FDI**
Relatively mass market approach	Kenya South Africa[a] Tunisia	Dominican Republic Mauritius[a]
Relatively niche market approach	Morocco Sri Lanka	Bhutan Botswana[a] United Rep. of Tanzania Uganda[a]

[a] These countries were studied in Phase II of the project, with the assistance of IDRC, and are reported upon fully in a separate publication. Kenya and the United Republic of Tanzania were studied in both phases.

Source: UNCTAD.

A. The conceptual framework

1. Synthesizing the FDI- and tourism-based approaches for measurement of impact on host countries

In the literature both on FDI and tourism, the measurement of impact is fraught with difficulties. Furthermore, some of the constituent elements of impact differ between the two approaches (e.g. with regard to the concept of leakages (box 2)). Consequently, combining the two distinct approaches requires utilizing some aspects of both while abandoning others.

For example, the tourism literature usually models impact in terms of how the tourism industry *as a whole* has affected the host economy. The dependent variable is usually tourism arrivals or tourism expenditure, and explanatory variables include household income, employment, tax revenues or growth in GDP, all of which are assumed to be affected (directly or indirectly) by tourists' consumption of goods and services.[1] Many of the models used in this approach are complex, given the dynamic and composite nature of the tourism industry, and there are debates about the use of various inputs.[2] There is no agreed industry standard as to the correct approach, although the use of the tourist satellite account (TSA) methodology by many countries (chapter 2, box II.1) has encouraged some degree of consensus on the use of some important impact indicators.[3] However, for various reasons, these models do not explain the effect of *tourism-related FDI* per se, where one is interested in the performance of particular players in the sector as well as the sector as a whole.

One of the reasons is that the focal points of our analysis are TNCs and FDI, and not tourism in general. A practical implication of this is that one might argue that tourism arrivals are at least partly explained by FDI, rather than being its cause (in fact, mutual causation is very likely the case). Secondly, the conventional approach in the tourism literature does not isolate the impact of FDI relative to domestic investment, the counterfactual that is a thorny issue in some developing countries today. In order to get to grips with this, we need to examine the industry structure in terms of foreign and domestic enterprises and their respective contributions. Thirdly, "tourism approach" impact models tend to be fairly macroeconomic in focus, and use aggregate or macroeconomic impact data gathered at the level of national or local government. The parallel with this approach is the rich stream of literature that examines FDI and its impact on, for example, GDP growth, employment and exports at the national, regional and global levels.[4] However, despite the exhaustive literature this topic has generated, there is still an ongoing debate on the relationship between FDI and growth and, moreover, as described in chapter II, we would not necessarily expect to find a convincing result with the use of tourism data.

Moreover, in a development context, more information is needed on microeconomic indicators, such as the contribution of FDI to tourism infrastructure, the skills content of employment, and knowledge and technology transfer, because these are important elements in the development process, and ones on which the UNCTAD study has focused. Such micro-data had to be gathered through surveys and interviews with tourism practitioners, investors and suppliers, rather than from national accounts. FDI studies with an accent on a microeconomic and institutional approach of this type focus more on issues such as technology spillovers, competitive effects (e.g. crowding in or crowding out) and other effects, at the level of the individual firm or a cross-section of the industry.

Combining the tourism and FDI approaches, we therefore investigated the balance of the positive and negative effects created by direct and indirect *microeconomic linkages* between the TNCs and the domestic economy, compared to domestic firms; we also examined, to a lesser extent, the *macroeconomic effects* (again, positive and negative, again comparing these to domestic firms), both to obtain a broader picture and as a cross-check, since tourism-related FDI should have an impact at both the micro and macro levels. We expected that such FDI would have an impact on the host economy through a variety of economic pathways and mechanisms.[5] The most obvious observations were expected to be *direct effects* (e.g. at the firm level) in the host country on employment and capital expenditure, including accommodation and related infrastructure. Less immediately visible, but important to examine, are direct effects such as whether TNCs affect a country's profile. For example, does the presence of a well-known brand encourage tourists to visit the country? Does TNC profitability in a foreign location encourage it to expand or reinvest profits, perhaps opening up in new areas?

Indirect effects were expected to be important also. These include, for example classical *consumption multiplier effects*, where TNC employees use their wages to buy goods and services from other, non-tourism-related industries. Such effects may be particularly important in areas where the TNC provides the only formal economic activity. TNCs could also contribute by means of *value chain multiplier effects* through their forward and backward linkages with suppliers and distributors (Mirza and Giroud 2004). These operate through the value chain of the TNC, both within the host country and internationally; and it is possible that, through spillover effects, the TNC helps move the country to a different, higher level of technology and expertise. Spillover effects may be one of the most significant contributions of foreign affiliates, if informal and intangible benefits can be transmitted from the TNC through its relations with suppliers, distributors and competitors, or through human capital effects (e.g. when an employee who was trained in a foreign hotel leaves to set up his or her own enterprise). Less obvious consequences of spillovers could include, for example, an increase in the national tax base, stimulated by the entry of new domestic firms into the economy.

Finally, all these various direct and indirect effects need to be considered against the counterfactual of what would have happened in the absence of FDI. Are the effects created by FDI different from those created by domestic investment? In the absence of a domestic investor to use as a comparator, there is still the question as to what would have happened if there had been no FDI. These questions have a special resonance with regard to FDI in tourism in developing countries because, as mentioned in earlier chapters, the issue of foreign involvement can be contentious. While an increasing number of countries are actively promoting FDI in tourism, in some cases this often takes place alongside the perception that there is already too much FDI or that FDI does not bring sufficient benefits. Given this divergence of views, the UNCTAD research provides empirical evidence of the absolute and relative contribution of FDI that might resolve some of the debate and aid policy-makers. Because the data are scarce, UNCTAD's approach focused on aspects and indicators for which it was feasible to obtain information. Indicators were chosen in the light of insights from traditional models of calculating the impact of tourism, and from FDI models of impact analysis.

These earlier mentioned challenges of blending together two distinctly different approaches to the impact of tourism-related FDI were given an additional twist by some differences in the use of terminology in the two literature streams to describe quite different things. In the tourism literature, for example, microeconomic effects are often loosely described as linkages, while macroeconomic effects include so-called leakages as well as exports, and the focus is on how tourism has affected the national economy as a whole. In the FDI literature, the word leakages means something else entirely, and important distinctions are made between direct effects, indirect effects and spillovers between the TNC and the host economy. Because these terms can be emotive, they are dissected in more detail in box III.2 below.

Box III.2. *Faux-amis*: leakages in tourism are not the same as leakages in FDI

The word leakage in the context of FDI and tourism is like the false-friends, or *faux-amis*, that abound between French and English – words that sound the same in both languages but have different meanings.

In the FDI literature, spillovers or leakages are usually seen as benefits, because the term is used to describe the transfer of valuable intangible assets from a TNC to the host economy. For example, knowledge about the managerial or financial systems used in a foreign enterprise can leak to domestic firms through the movement of employees, or through demonstration effects, when local firms learn new ways of doing things by observing the strategies and choices made by foreign firms.

In the tourism literature, leakages are almost always seen in a more macroeconomic, negative light, meaning leakage in a national balance-of-payments sense. The term is used to include imports of goods or services used in tourism and the repatriation of profits made by foreign firms. Domestic investors may also engage in some of these activities (e.g. paying off loans to foreign banks or importing goods and services). The outstanding question for the UNCTAD project is whether foreign firms are any more likely to do this than are domestic firms. In this publication we use the word leakage in the tourism literature's balance-of-payments sense, because it is the way in which most tourism policy-makers, practitioners and commentators use it. We use the word spillovers to describe what are called leakages in the TNC literature (box table III.2).

Even within the tourism literature, the word leakage can be used inappropriately. For example, some imports are to a certain degree inevitable, and may even be efficient if the host location cannot readily supply the goods and services needed. As this may be an intrinsic cost of conducting tourism, it is not appropriate to call it a leakage. Some leakages may be a direct result of the inflow of funds in the first place (for instance, where there would be no profits to repatriate had the TNC not first brought capital to invest).

/…

Box III.2. *Faux-amis*: leakages in tourism are not the same as leakages in FDI (concluded)

Also, the term leakage is frequently used to describe the way that local firms can be excluded from parts of the global tourism value chain, especially in connection with the role of international tour operators, for example. A tour operator may charge international customers fees of $1,000 for a package holiday in a foreign country, of which the host country may receive $500 through the sale of such items as accommodation and food. However, the foregone $500 is not, strictly speaking, a leakage. Neither is it necessarily a profit for the tour operator. Typically the lion's share covers the cost of air travel to the destination, plus costs of marketing or organizing a group. Rather, the additional $500 represents opportunities foregone, and the question is how developing countries can increase their share of the total $1,000 created.

Box table III.2. Some examples of definitions of impacts used in this publication

Mostly microeconomic impacts ← → **Mostly macroeconomic impacts** (positive and negative)			
Linkage effects		**Balance of payments or leakage effects**	
Indirect or spillover effects	***Direct effects***	***Direct effects***	***Indirect effects***
• Foreign affiliates produce informal and intangible effects with an impact on the domestic economy(e.g. technology transfer, management skills, training effects, competition and demonstration effects).	•Tourism firms create links with the domestic economy through employment and the establishment of assets and infrastructure. •Value chain linkages with local suppliers (procurement) and other companies.	• Tourism-related firms import goods and services, repatriate profits, pay management contract fees or repay loans made overseas, and employ expatriate workers. • TNCs attract more tourists, and increase foreign exchange earnings.	• Tourists may become investors, bringing capital and boosting exports. • Suppliers to tourism firms may increase their imports.

Note: this is not an exhaustive list of linkage and leakage effects.

The goal of host countries is to capture as much of the value created by tourism as possible. This publication argues that to a certain extent this can be influenced by government policy and TNC strategy. The fewer the linkages between the TNC and the local economy and the more difficult it is to find what is needed in the host country, the more the TNC will import goods or services. In other words, with appropriate policies, the local economy may increase its share in the tourism production/value chain. This is described in detail in chapter IV.

Source: UNCTAD

2. The UNCTAD model

The study focuses primarily on direct, indirect, and spillover effects and microeconomic implications of TNC participation (or lack of it) in host countries. This is for two reasons. First, there is unlikely to be a clear causal link between tourism-related FDI and macroeconomic outcomes, such as a country's level of economic growth or poverty reduction. There are too many other contributory factors besides tourism-related FDI. Secondly, from a long-term development perspective, micro impacts on infrastructure development or skills and technology transfer may be as important as the immediate macroeconomic impacts. These are, for example, important elements underlying the extent to which a country is able to capture the value of tourism activities, as well as create it.

There is no precise method of specifying a counterfactual: what would have happened if a TNC had not made a particular investment? Thus our assessment of the development impact of FDI uses a qualitative analysis of TNCs' contributions, without any attempt at calculating a net rate of return. The premise is that FDI can have positive and negative effects, and the task facing host countries is therefore to disentangle these effects and take measures that maximize one and minimize the other (see UNCTAD 1999 for a more detailed discussion of this approach). Therefore, through interviews we gathered information on the direct and indirect effects related to the following:

- Impact on tourism demand.
- Impact on supply capacity: capital formation, infrastructure and accommodation, corporate profitability, reinvestment and occupancy rates.
- Human resources impacts: employment generation, skills content of jobs, gender effects, training and knowledge, use of technology.
- Linkages with the domestic economy (e.g. through procurement links).
- Impact, if any, on domestic enterprise development.
- Imports directly generated by TNCs (in particular, goods and services).
- Environmental and corporate social responsibility (CSR) strategies and behaviour.

At the outset there were no strong preconceptions of what results would emerge overall, other than expecting the impact of FDI to vary between countries according to their levels of absorptive and productive capacity, including that arising from their history of tourism-related development (see box III.1). Some general expectations of various types of impact (drawn from the literature) are summarized in table III.1 below. As shown in the table, some expectations were broadly confirmed, but a number of them were not.

B. Evidence of the impact of FDI in tourism

1. TNCs and impact on tourist demand: the chicken or the egg?

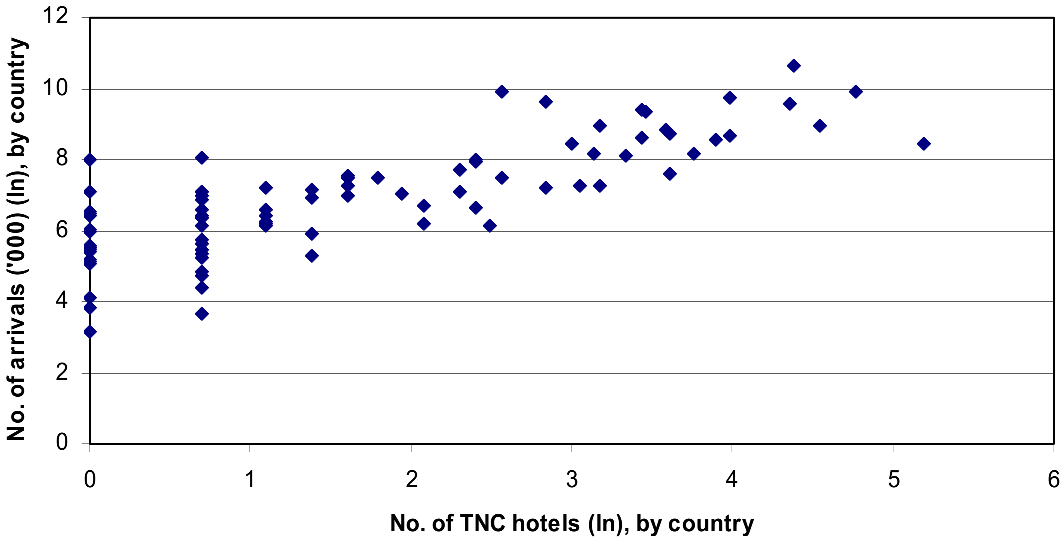
An important question for developing countries is whether tourists come first, or investors. UNCTAD found little conclusive evidence of this at the general level, but a clearer picture emerged in countries that are new to tourism. The conundrum is that tourists cannot visit a location until they have a way of getting there and somewhere to stay; but TNCs may not risk an investment until they are confident of having a sufficient number of paying customers. At the aggregate level, the UNCTAD survey found a weak, positive association between tourism demand and supply capacity (figure III.1). The horizontal axis indicates the total number of TNC hotels (logged) in each of 81 developing countries reporting to the UNCTAD survey of global hotel investors (chapter II), and the vertical axis indicates the number of tourist arrivals (logged) per country, using 2004 data from the UNWTO. On average, the number of arrivals in each country increases as the number of TNC hotels in each country increases.[6] This does not, however, indicate which came first.

Table III.1. Impact indicators and expected findings

Impact indicator	Expected impact, examples	Were expectations confirmed?
1. Consumer demand	TNCs may have a strong impact in new destinations chosen by tourists (or the hotel itself may be the destination).	Yes
	Tourists' nationality can be influenced by the nationality of investors	Sometimes
2. Capital formation	TNCs dominate, owning or managing a large proportion of the accommodation infrastructure.	Mostly not – only in new destinations
	TNCs introduce product innovations.	Yes
	The relative contribution of TNCs to accommodation infrastructure and innovation decreases over time, as local enterprises become more involved.	Yes
	TNCs are not involved in infrastructure investment or assets with public good aspects.	Mostly not. Some FDI in airlines and airports
	TNCs pull out quickly in downturns or crises.	Mostly not
3. Human resources	TNC hotels employ more expatriate workers than local hotels.	No
	TNC hotels employ larger numbers of local workers than local hotels.	Yes
	TNCs pay less than local firms, or offer fewer benefits.	No
	TNCs offer more advanced training and greater skills transfer than is possible by local hotels.	Yes
4. Linkages	TNC hotels have fewer procurement linkages with domestic enterprises than local firms.	No
	TNC hotels are more likely to import goods and services than local firms.	No
5. Technology	TNC hotels use more advanced management and financial systems.	Yes
	Technology and expertise spills over to local firms.	Sometimes
6. Environment	TNCs promote better environmental standards.	Yes
7. Competition	TNC hotels are more expensive than local hotels.	Yes
	TNC hotels have higher profits and higher occupancy rates than local hotels.	Mostly yes
	TNC hotels have stronger links with tour operators.	Mostly yes
	TNCs crowd out local enterprises.	No
8. Balance of payments	TNCs encourage greater imports of goods and services and repatriate significant profits.	Not clear

Source: Results of UNCTAD questionnaires and survey, 2006.

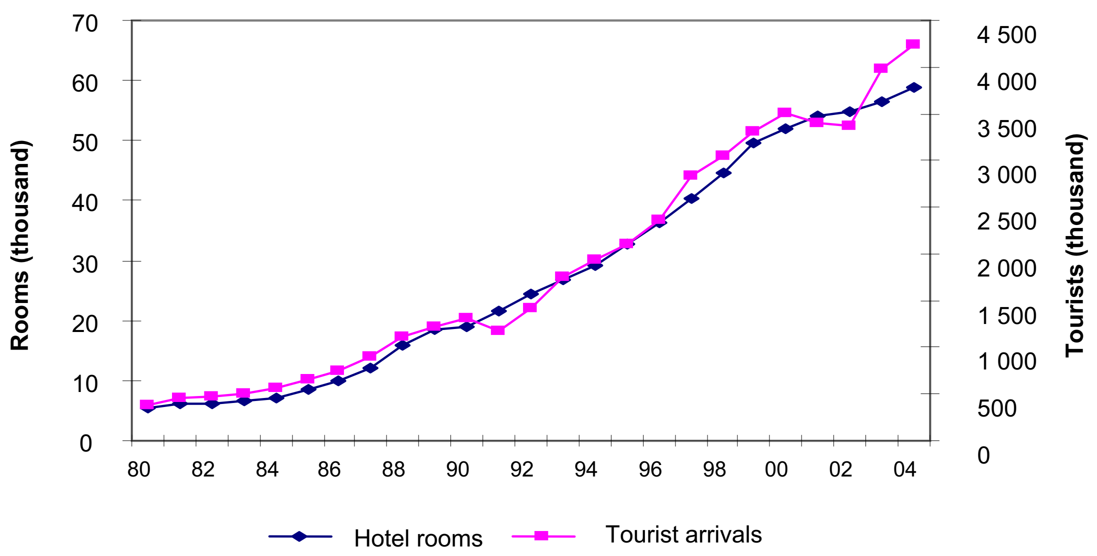
Figure III.1. Number of TNC hotels and tourist arrivals, by country



Source: Derived from UNCTAD survey, 2006.

There is also a positive association between the number of TNCs and the level of tourism revenues per country (figure 1, annex B). However, again, this does not explain which came first (i.e. which was the cause and which the effect). In tourism locations that are now well established, it is difficult to unravel the early steps because there is little historical data. In some cases, tourism economies appear to have emerged relatively spontaneously, with backpacker tourists helping to bring a new destination on to TNCs' radar screens (e.g. Bali and Thailand), while in other cases the tourism industry was essentially kick-started by TNCs, often in response to a specific government policy. For example, FDI played a major role in starting tourism in Tunisia in the 1970s, when investors such as Club Med invented the concept of a beach resort. However, there is reasonably clear information from fairly recent examples. In the Dominican Republic, for example, the Government initiated the tourism industry in the 1970s, but the real boom from the 1980s onwards was due to private sector investment, and in particular, FDI (figure III.2). The number of hotel rooms rose from 2,000 in 1971 to close to 60,000 by 2004, of which around 60 per cent were owned by foreign investors. At the same time, tourism arrivals increased from 69,999 in 1971 to around 4.5 million by 2004.

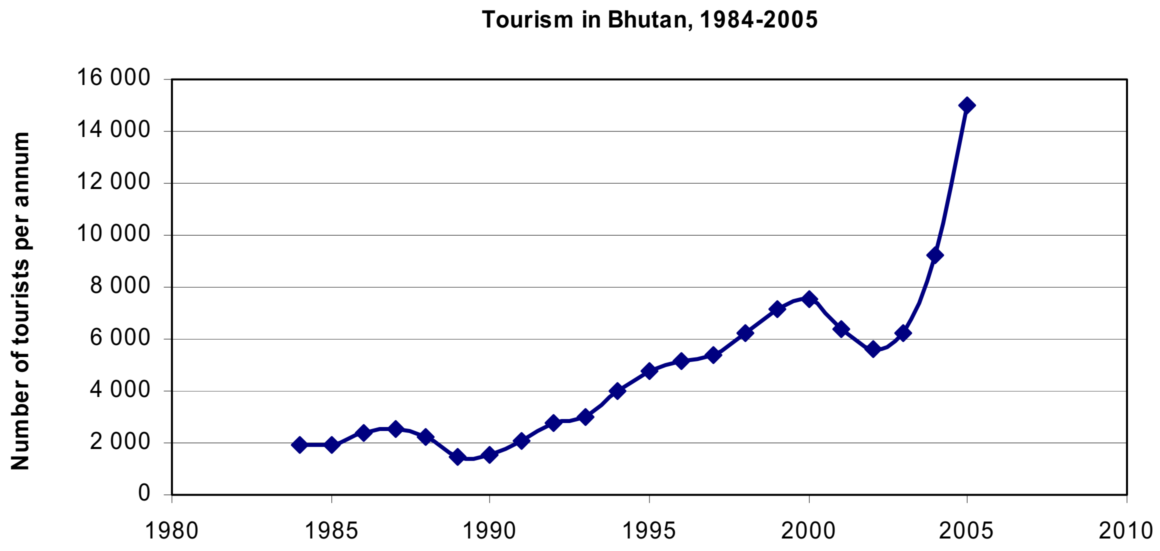
Figure III.2. Dominican Republic: tourism boom matches rise in FDI



Source: (UNCTAD 2007a).

The emerging tourism economies of Bhutan and the United Republic of Tanzania are also examples where sharp increases in tourist arrival numbers appear to be directly linked to FDI. In Bhutan, the first TNCs entered as recently as 2004, and they have been responsible for more than doubling the number of tourist arrivals (figure III.3 and annex B). In this case the sharp increase in tourists has been due not so much to the fact that the two foreign hotels have increased the stock of available rooms per se, because Bhutan has a large stock of domestically owned accommodation, and most international tourists stay in these rather than in the new foreign hotels. What they have done is to create the first five-star or luxury accommodation; and some of the hotel lodges are situated in particularly remote areas that have no other accommodation. More importantly, they have attracted enormous publicity in the international tourism and general media, which has boosted tourist interest in the country. According to a senior government official, "We achieved a higher profile in the 12 months following their entry than we did in a decade's formal publicity campaign" (UNCTAD 2007a).

Figure III.3. Bhutan: tourist arrivals surge following entry of the first TNC hotels



Source: Department of Tourism, Bhutan (2006).

This sentiment was echoed in Sri Lanka, where interviewees suggested that one of the most important implications of TNCs in tourism was the marketing power of international brands. According to the respondents, no national tourist board can compete with the loyalty schemes, corporate networks and direct mails that reach millions of customers of a well-known brand (UNCTAD, 2007a).

Finally, the nature of tourism demand, including the source country of tourists, may also be affected by FDI. There may be a relationship between the origin of tourists visiting a country and the nationality of hotel owners or managers. In the Tunisia case study, for example, UNCTAD found that in the early days of tourism development, the pattern was that French tourists stayed at the French-owned hotels (including Club Med, an early initiator of beach club tourism and one of the first foreign hotels to enter Tunisia). Over time this came to include German tourists staying at German-owned hotels, and most recently there are signs of a trend of Arab tourists staying at Arab-owned hotels (UNCTAD 2007a). The implication of this, given the new trends of South-South tourism and South-South investment, is that hotels from developing countries may have a comparative advantage in serving tourists from those countries, although it is too soon to say whether this is the case. In other country case studies such as those of Kenya and the United Republic of Tanzania, this sort of symmetry between the nationalities of hotel owners/managers and hotel guests was less evident (UNCTAD 2007a).

Of course an association between TNCs and tourist arrivals is not the whole story, as the numbers of tourists do not necessarily correlate directly with revenues earned. As one TNC investor in Kenya noted "I do not take tourist numbers to the bank – I take cash to the bank" (UNCTAD 2007a). The revenue created per tourist is much more important than the number of tourists alone. The positive association found between the number of TNCs per country and total tourism revenue per country (annex B, figure 1) was not repeated so clearly when the number of TNCs was compared with the revenue per arrival (annex B, figure 2). It is likely that this is related to many other factors in addition to the number of TNC hotels – including the hotels' quality and price, but perhaps more importantly, the length of tourists' stay, and the depth and breadth of the local enterprise sector.

2. Tourism-related FDI and capital formation

a. Accommodation supply capacity and quality

As described above, TNCs can contribute to a country's levels of tourism-related capital formation, by providing finance and knowledge to invest in land improvements, infrastructure and buildings. They also appear to be more likely to invest in the higher quality/higher price end of the market, in both leisure and business tourism. This may be particularly significant for countries that are reasonably new to tourism, or who wish to get started quickly, as is evident in the examples of Bhutan, the Dominican Republic and the United Republic of Tanzania, and historically in destinations such as Tunisia.

For example, in the Dominican Republic, tourism was first promoted in the 1970s by the Central Bank Department of Tourism Infrastructure. With the support of the World Bank, the Government invested in tourism infrastructure in a few key locations as part of a policy of diversification away from the country's reliance on sugar. The number of hotel rooms available increased from 2,000 to 6,000 over the decade from 1971 to 1981, with some foreign investment (from the United States), but a large share was attributable to public investment. However, the real boom occurred from the late 1980s onwards, with foreign investors paying billions of dollars to boost the accommodation stock by as much as 10 times (UNCTAD 2007a).

In the United Republic of Tanzania, an even more recently emerging tourism destination, FDI stock in accommodation increased by 85 per cent, from $280 million in 1999 to $518 million in 2004, boosting the total hotel stock by one third (UNCTAD 2007a and b), and in particular, helping to fill gaps in the five-star market for business hotels and wildlife lodges. Tourism arrival figures leapt from less than 100,000 in the early 1980s to close to 600,000 by 2005,[7] in parallel with the increased accommodation stock. Today, foreign investors own around 22 per cent of all the hotels in the country and have equity through joint ventures in another 7 per cent. In several locations, foreigners are the only investors (especially in remote locations). In the Tanzanian island of Zanzibar, while exact figures are not known, the proportion is believed to be even greater.

More generally in Africa, commentators have noted that the lack of hotel rooms of sufficient quality is a constraint on tourism development (RETOSA 2006), which is an issue for a region that receives only 1.2 per cent of global tourism demand (WTTC 2006). This is why in Madagascar, for example, the strategy to create an international tourism industry more or less from scratch has focused on TNCs to act as high-profile attractants in each nascent location (UNCTAD interviews, 2006).

Offering a different perspective on the same point, domestic investors in Sri Lanka claim that the absence of FDI in recent years explains the lack of investment and renovation of its top hotels (UNCTAD 2007a). It was argued that the signal created by the presence of a well-known hotel brand would have a positive spillover effect on other investors, in addition to the accommodation capacity such a hotel would directly provide. Respondents argued that if international companies showed even only a slight interest, the industry could be stimulated tremendously: "We need them coming in and showing to all the others that this is a country worth investing in", said the manager of a four-star hotel. TNCs and foreign investors were also reported to have a positive impact on the quality of accommodation services, in addition to their quantity. For example, hotels in Colombo have typically lacked capital for reinvestment in refurbishment, which has led in turn to a downward spiral where many hotels significantly cut prices and thus earned even less profits for reinvestment. The one hotel in Colombo that is perceived to have bucked the trend is a five-star hotel linked with an international chain that provides considerable financial and marketing support. It has been the only one able to refurbish in recent years, and its room rates are double of what other hotels can charge. Despite its higher rates, it has had extremely high occupancy rates and is the most profitable hotel for the group, in part because there is no competition (UNCTAD 2007a).

One of the reasons that most countries actively seek foreign investment to boost the domestic tourism supply capacity is because it takes billions of dollars of investment in accommodation to get started. Even where a government is prepared to provide a catalyst, there can be a circular problem where a threshold minimum of hotel rooms and arrivals is needed first to justify large public investments in tourism-related infrastructure.[8] In many cases, the capital requirements to achieve even a minimum level of hotel accommodation exceed the resources available domestically (box III.3).

Box III. 3. The cost of building a hotel

According to industry estimates, in the early 2000s the cost of building one hotel room was on average between $60,000 in the Dominican Republic and $70,000 in Riviera Maya, Mexico. The cost of a room in larger more luxurious hotels with, say 1,000 rooms, could easily reach $100,000 (Spence 2001). Thus an investment of over $1 billion was needed to build 15,000 rooms in the Riviera Maya between 1997 and 2003. And developing the Dominican Republic as a mass tourism destination with some 50,000 hotel rooms required investments of $3 billion. Applying today's investment cost in the Dominican Republic to the room stock in the Caribbean, it would have cost $15 billion to provide some 250,000 rooms in 2000 (ECLAC 2003, p. 16).

With figures of this magnitude it is not surprising that many developing countries have relied on foreign companies to kick-start investment in accommodation, or sought other sources of external financing, as described in box III.6 below. It is also notable, however, that these prices are very different from those cited by hotel managers today for some of the fastest growing new locations such as China. UNCTAD interviews conducted through 2006 revealed that the price of building new hotel rooms in China, for example, ranged from $25,000 to $50,000 for a low to medium quality hotel room, implying $5 to $10 million for a 200-room hotel. One hotel manager said that it was half the price of building a comparable hotel in Morocco, and one third of the cost of building in Europe. In part the low costs are due to the fact that all building materials can now be sourced from within the country, unlike the situation in, for example, the Russian Federation or India, where more materials are imported.

On the other hand, low costs are not enough; the same hotel manager cited construction costs of around $20,000 for similar quality hotel rooms in Africa, but was markedly less enthusiastic about investing there, because of a lower level of consumer demand. Many TNC hotels have set their sights on China because it has become the world's fourth largest tourist destination (WTTC 2006).

Source: UNCTAD.

However the role of foreign investment appears to become less significant over time, and in countries with a longer history of both tourism and FDI, it is domestic investors that predominate in terms of accommodation stock. The argument is that over time, more and more local entrepreneurs emerge, or existing entrepreneurs are able to upgrade an existing hotel stock in order to become more competitive. In Tunisia, after more than 30 years of mass tourism initiated through TNCs such as Club Med, hotels with full or partial foreign ownership account for only 7 per cent of the total hotel-bed stock. If hotels with foreign management are also included, the share rises to 33 per cent, but the picture is one where locally owned and managed hotels dominate and the role of TNCs has become relatively small. A similar picture has emerged in Morocco, although it is possible that this may be changing from 2006 onwards, given the Moroccan Government's latest policy of targeting FDI for a number of new, very large-scale greenfield developments. It may take time before local enterprises emerge alongside the new, purpose-built tourism complexes.

This situation is also evident in the experiences of Kenya and the United Republic of Tanzania. In many respects these two countries have similar natural endowments and sources of comparative advantage in tourism, although they have had a very different FDI history. As described above, in the United Republic of Tanzania, which opened up to FDI relatively recently, foreign investors dominate. They accounted for 64 per cent of all new registered accommodation projects during the period 2002-2004 (UNCTAD 2007a). In Kenya, by contrast, tourism-related FDI projects have accounted for only 10 per cent of all new foreign equity investment projects over the last 16 years, and it is notable that there are no major international names involved – they had already entered years if not decades earlier. Kenya's recent tourism projects tended to be fairly small in scale (only two investments were worth more than \$5 million, the majority were worth less than \$1.3 million, and indeed almost half were less than \$140,000). Moreover, most had a local partner (UNCTAD 2007a).

Thus it could be argued that the high level of foreign equity in the accommodation stock of the Dominican Republic reflects its relatively recent history of tourism-related FDI, being about 20 years behind that of countries like, for example, Tunisia. It is also notable that the share of tourism-related FDI in total FDI is high in the Dominican Republic as well as in other countries where tourism-related FDI is relatively recent compared to countries with a longer history.

The impact of TNCs in terms of introducing new and innovative tourism products may also be sensitive to the level of development of the host economy, and may change over time. In Tunisia, despite a strong domestic investment sector, it is the foreign investors that are credited with developing the emerging conference market, and that are widely cited as having been critical to that country's success in hosting a major global IT conference in 2006 (UNCTAD 2007a). This role can be particularly important in new locations. In Sri Lanka, the recent new trend where small-scale, up-market boutique hotels are being built by foreign investors is being described as a new era for that country, and hopes are high that they will help it regain the competitive position it lost to countries such as Thailand and Malaysia. In Bhutan, although a number of local hotels are located in settings with great historical and cultural appeal, TNCs provide the only accommodation that could be called five-star.

It is worth noting that these niches do not always have to be in the highest price bracket – a new trend has emerged in recent years with the French hotel chain, Accor, associated with up-market backpackers' lodges in countries such as Australia and New Zealand. A similar trend has not yet occurred in developing countries, although presumably it could. The backpackers' market has been identified in Australia and New Zealand as being a particularly high-yield one, as they spend the same or sometimes more than "conventional" tourists, especially on goods and services that are provided by local enterprises, such as food and drinks. There is also a change in the make-up of this market: some backpackers for example are in their 50s, rather than their 20s.[9]

Moreover, the role of TNCs as promoting product innovation or diversity should be kept in historical perspective. For example, in Tunisia local investors, rather than foreign ones, have been the first to branch out into high value-added products such as thalassotherapy and desert tourism. Similarly, in Kenya it was a locally owned enterprise that was the first to introduce hot-air balloon safaris, and not a foreign owner (UNCTAD, 2007a).

Also, there can be much variation, with some countries' tourism sectors being developed primarily with local capital and expertise. Mauritius is one notable example where, although foreign investors were considered essential to make the construction of world-class hotels possible, the initial drive to develop tourism came from domestic investors, and domestic owners still account for the lion's share of the market (box III.4). In the Caribbean, where the role of foreign hotels is the highest of all the developing-country regions, there are considerable differences between say the Bahamas (which has some extremely large foreign-owned hotels, including one with 2,500 rooms) and Belize, which has focused on ecotourism and has primarily domestic-owned hotels of an average size of 10 rooms (Dunlop 2003).

Box III.4. Hotels in Mauritius: mainly local but increasingly foreign

The development of international tourism in Mauritius is considered a success story. Although essentially a sun-sea-sand (SSS) destination (with 90 per cent of the accommodation located on the beach or close to the beach), the country has developed niche tourism, catering to the needs of high-income tourists, mainly from Europe. As noted in chapter I, it is not uncommon for a luxury hotel to charge $1,500 per suite per night during the high season.

The accommodation base, consisting of 94 hotels with some 14,000 rooms, has been built using mainly local resources. At present, foreign investors own only 22 hotels that focus mainly on the business and up-market leisure segment. Mauritian nationals, including those in sugar and textile industries, invested in hotels from the outset, helped in part by government policy that required local control of equity of hotels with less than 100 rooms. This helped to develop local SMEs, but also, in contrast to many other countries, there is a significant local presence in large luxury hotels. The initial local investors now own a chain, Beachcombers, which includes among its properties a leading world-class hotel. The only five-star business hotel in Port Louis is wholly locally owned and managed. But most big hotels have some expatriates in top management.

The expansion plans of the accommodation base (by 3,200 hotel rooms between 1999 and 2002), approved by the Government in 1999, envisaged a number of new hotels to be built by foreign chains, including Hilton, Oberoi and Sun International. In 2004, FDI inflows in tourism picked up strongly and the country is now in the midst of another tourism investment boom. New issues that are arising include the effect of the minimum investment ceiling, because, increasingly, the largest profit in hotels is to be made in small, but very high cost lodges, for example with fewer than 30 rooms.

Source: UNCTAD, 2007b, and TNC websites.

Other examples where tourism has been developed using mainly domestic resources include some larger and relatively more advanced developing economies. Prior to the 1980s, India, Mexico and the Republic of Korea were examples of countries that adopted a policy of not only doing without TNCs' equity investment in the hotel sector but also without their managerial expertise. The Indian Government, for example, did not normally permit management contracts between Indian hotels and TNCs; it allowed only franchising and marketing agreements. (See Box II.5 for adefinitions on non-equity modes). Direct equity involvement was prohibited, although this ruling has since been relaxed. In the Republic of Korea, the majority of agreements concluded with TNCs were of this latter kind. In Indonesia, the Philippines, Taiwan Province of China and Thailand, there was a distinct trend away from equity involvement of TNCs and medium- to long-term management contracts towards ad hoc technical service agreements and associations with referral or reservation chains (UNCTC 1982, p. 84).

An overview of the findings of the UNCTAD case studies on supply capacity is shown in table III.2 below. In most of the countries studied, the share of foreign-owned accommodation stock compared to the domestic stock is small, with the notable exception of the Dominican Republic and some parts of the United Republic of Tanzania. However, the role of foreign investment is concentrated mainly in the upper end of the business or leisure tourism market. The rise of tourism based on international meetings and conventions, for example in Tunisia – a country where TNCs were more influential in the 1970s than they are today – has been possible in part because of foreign investment in special facilities designed for this new and burgeoning market.

Table III.2. FDI and supply capacity

Country	**Contribution of TNCs**	**Significance for capacity formation**
Bhutan	Two TNC hotels account for 7-10 per cent of all hotel rooms designated for international tourists.	A new category of small luxury hotels has emerged. New, previously unserved areas of the country have been opened up.
Dominican Republic	FDI accounts for over 60 per cent of all hotel rooms. The first privately owned airport in the world.	FDI was responsible for the boom in tourism. The new airport opened up new areas of the island for FDI in hotels, and they have now become the main areas for tourism.
Kenya	Long history of foreign investment is part of Kenya's colonial history. Today, 10-15 per cent of hotels are wholly foreign owned; around 20 per cent are joint ventures.	FDI is concentrated in 4- and 5-star, large hotels; TNC hotels have a higher asset value than domestic hotels. Very little FDI occurs in coastal tourism – it is mostly in Nairobi and in business tourism. There is an ongoing debate as to who is "foreign", including, for example, relatively new immigrants to Kenya from other countries in Africa, and third or fourth generation Kenyan citizens with family or historical links to Asia or Europe.
Mauritius	About 20 per cent of hotel rooms are owned by foreign investors. Outward tourism-related FDI now exceeds inward.	There is a strong tradition of domestic ownership by sugar-cane owners. TNCs are involved in both beach and business hotels.
Morocco	Long history of foreign investment, but accommodation base is mostly domestic.	There is a new role for TNCs as anchors for new, large-scale public-private partnerships in new locations.
Sri Lanka	Very little FDI at present compared to the past.	All 5-star hotels had foreign involvement initially, but most are now locally owned. Lack of FDI is associated with the lack of reinvestment and refurbishment. Some new FDI occurs in small-scale, high-price boutique hotels. (Note: Sri Lanka may be seen once more as a "new" location for FDI, as it seems to be reappearing on the radar screen of international tourism and investors.)
United Rep. of Tanzania	FDI is in over 30 per cent of all hotels on the mainland and more on Zanzibar island. FDI accounted for over 60 per cent of all new accommodation projects in 2002-2004.	FDI is concentrated in 4- and 5-star accommodation; TNCs are opening up new areas to tourism and is contributing to urban regeneration (Zanzibar and Dar es Salaam).
Tunisia	Fewer than 7 per cent of hotel rooms are foreign-owned; 30 per cent of hotels rooms have foreign management.	TNCs were critical in the early days, but are much less significant today. There is a strong domestic sector.

Source: Based on UNCTAD surveys (2006).

b. Tourism-related infrastructure

Besides accommodation, a location should also have adequate infrastructure, such as transport links and water and sewage facilities. Usually, this is not the province of international investors, as mentioned in chapter II; indeed, most CEOs of international hotel chains interviewed by UNCTAD during 2006 were adamant that this was the role of governments and not the private sector. There is some FDI in water and waste-water facilities in developing countries, but this is decreasing (UNCTAD 2004, p. 121) and is not tourism-specific. In airlines, the role of TNCs appears to be increasing, although this is mainly through alliances and less often through direct investment, in developed and developing countries' airlines (UNCTAD 2004, p. 108; and Annex of this publication).

However some notable exceptions do occur, including, for example, investment by TNCs in an airport in the Dominican Republic (box III.5) and a railway in Peru. The Orient-Express hotel group has 50 per cent equity in the Central and Southern Railway in Peru (UNCTAD interviews, 2006), which has the only two lines still in operation in Peru's national railway.[10] A Bahamas-based TNC has a 60-year franchise for the two rail tracks, and while the core of the investment, in tourism terms, is the one-day historical train trip from Cuzco to Machu Picchu, for which tourists pay around $500 (ibid), other services are also operated, including national freight. Orient-Express invested significantly in improving the stock, and in training local employees, and the railway alone currently employs some 400 people out of the 1,000 employed in the chain's operations in Peru (UNCTAD interviews, 2006).

Box III. 5. FDI in infrastructure has opened up new regions in the Dominican Republic

In the Dominican Republic, the new tourism resort area of Punta Cana, an east coast area that now accounts for almost half of all hotel rooms on the island, was developed largely by TNCs (UNCTAD country case study 2006). That area completely lacked public infrastructure, and resorts have developed as small enclaves with their own power, water and sanitation and waste management services, provided either individually or through a grouping of resorts in a specific area. They have even built their own roads connecting them to the nearest airport, itself partly financed by the first hotel in the area, which was built in 1978 by the French TNC, Club Med. In order to by-pass the five-hour travel to the new resort from the international airport at Santo Domingo, Club Med took a 50 per cent equity share in the development of a new international airport. The other 50 per cent partnership was provided by a United States/Dominican Republic partnership.

The inauguration of the new airport was a strong incentive for other hotels to invest, starting with the Spanish Barceló Bávaro Hotel and followed by a number of other Spanish investors. The new tourism zone grew quickly, almost exclusively through foreign investment, and progressively the Punta Cana airport became the principal point of entry for non-residents. It now accounts for 35 per cent of total non-resident entrances, and 47 per cent of those who enter the Dominican Republic by air (box figure III.5.1).

The airport is also credited with having helped create investment spillovers to other areas, as some successful Spanish hotels in the eastern coastal area then expanded their investments into the older tourist zones of Puerto Plata, where national investment had been traditionally predominant (UNCTAD 2007a).

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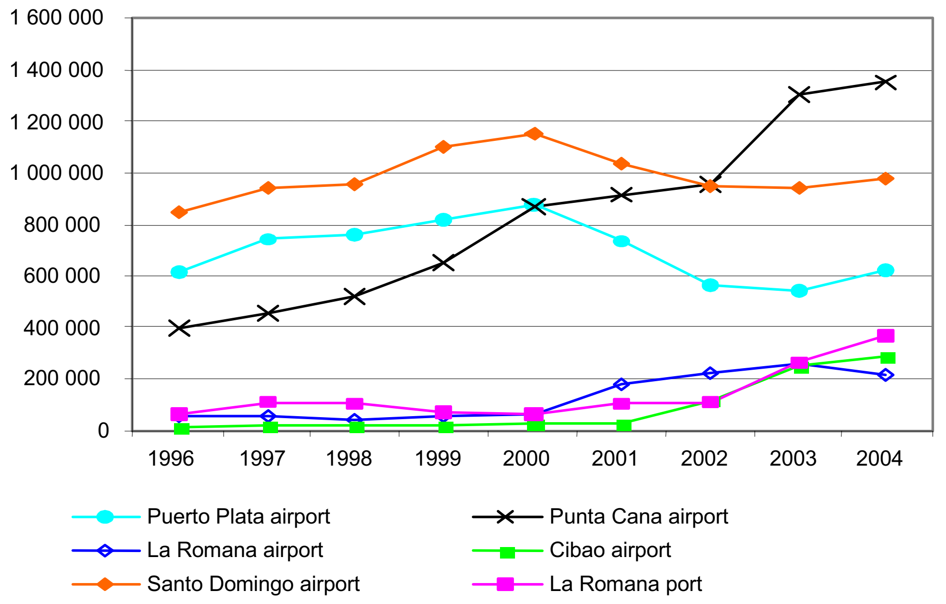
Box III. 5. FDI in infrastructure has opened up new regions in the Dominican Republic (concluded)

Box figure III.5.1. Growth of tourist arrivals Punta Cana airport



Source: UNCTAD (2007a).

c. Resilience and access to capital

One key finding to emerge from the UNCTAD interviews and case studies was that TNC hotels can have an additional resilience when business conditions are difficult. This is not surprising given that a TNC hotel in an afflicted area can benefit from cost-sharing and loss-pooling across the chain's other properties. In Kenya, for example, some hotel investments made by the Serena Group benefited from the chain's ability to weather the downturn years experienced by all Kenyan tourism enterprises until conditions improved, before making the required loan repayments to the parent company (UNCTAD interviews, 2005). Similarly in Tunisia, TNC hotels have maintained a presence during loss-making years, and may even be expanding despite poor profitability in the past. "We cannot not be here", was the response of a French-owned TNC with at least 50 hotels already in North Africa, and it plans to increase its presence in Tunisia from 11 hotels to 20 by 2008. As another example, after the passage of Hurricane Wilma, which devastated the popular Mexican resort towns of Playa del Carmen, Cozumel and Cancún in October 2005, foreign hotels from these zones were able to redirect their clients to affiliated hotels in the Dominican Republic (UNCTAD 2007a) while repairs were being made. This reduced the short- and long-term negative impact of the storm on Mexican resorts.

The ability to ride out difficult periods is not always open to independent hotels, which rely on consistent bookings revenues to cover their variable and fixed costs of operation. For example, the beach hotels that failed during Kenya's tourism downturns in the early 2000s were primarily locally owned (UNCTAD 2007a).

In Sri Lanka, the impact of foreign hotels has been even more dramatic. For example, the internationally owned hotels in the tsunami-afflicted areas were the first to recover and return to operations. A German-owned beach hotel that was severely damaged by the tsunami re-opened its doors for business a few weeks later, while locally owned hotels a 10-minute walk away were still closed 10 months later. In addition, the foreign hotel started a collection from its former guests, amounting to 80,000 euros that were spent on rebuilding staff members' houses and supporting low-paid members of staff. The hotel's rapid reconstruction stood in stark contrast to the delays experienced by communities in other areas (UNCTAD 2007a).

On the other hand, the ability of TNCs to withstand crises has its limits, as also seen in Sri Lanka during the years of conflict when many foreign investors left, either quickly or gradually over the years. This is different from instances where, for example, foreign hotels can succeed despite times of conflict or post-conflict, although in these instances customers tend to be aid workers or journalists. Moreover, if the actual owners of the hotel are domestic investors or even the government, the financial risk is not incurred by the TNC. Related to this is the case whereby well-known international hotel chains are invited to manage government-owned hotels in post-conflict settings, such as the Inter-Continental-managed hotel in Kigali, Rwanda, which can appear as a standard bearer for the country's high hopes of tourism as a path for future peace and prosperity (*UNCTAD Investment Policy Review* 2006).

A related role played by TNCs is to help mobilize capital from other sources, which can enable local investors to finance and build hotel accommodation. When a well-known chain is involved, even if only to design and manage the hotel, it is easier for local investors to tap foreign capital. This can include both private and official sources of finance, such as the World Bank and its investment arm, the International Finance Corporation (IFC) (box III.6). According to TNCs interviewed in the UNCTAD survey, the participation of a TNC can help domestic investors gain access to capital markets. This is confirmed by the country case studies in which a number of local investors said that either equity or non-equity involvement with a TNC was needed to help them convince domestic banks that the hotel would be of the required quality or attractiveness (UNCTAD 2007a). This indicates a perhaps unexpected financial role that can be played by the majority of TNCs that are largely involved only in non-equity modes, as identified in chapter II.

Box III.6. Other sources of investment capital to finance hotels

In terms of global finance, an important source is the International Finance Corporation, part of the World Bank, which specializes in investment in private companies and projects in emerging markets and developing countries. In 2006, its investments in tourism amounted to $2 billion, which represents 18 per cent of its total net worth of $11.1 billion, or close to 10 per cent of its total committed portfolio of $21.6 billion. To date, the IFC has invested in 180 hotel projects in 75 developing countries.

In addition to providing investment finance directly, which may be particularly important in countries where only short- to medium-term financing is available, the involvement of the IFC can help to mobilize additional funding from international commercial banks which might not otherwise be willing to invest, or which would invest for the short-term only. The IFC's tourism portfolio is quite diverse with respect to location, hotel type, size and form of investment, although a common denominator is the participation of a global hotel chain, either as equity investor and manager, or as a manager for domestic

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Box III.6. Other sources of investment capital to finance hotels (concluded)

investors. For example, Conrad International Corporation (part of the Hilton Group) is described as being the “technical sponsor” in an IFC-supported hotel project in Istanbul, Turkey, in which Conrad held a 25 per cent stake, the Turkish family-owned Aksoy Group held 49 per cent, and the Turkish Social Insurance Fund and State Employees Pension Fund were domestic institutional investors holding 15 per cent and 11 per cent respectively. The IFC loaned $3.5 million of the total project value of $8.8 million in 2002 (MIGA 2006).

More generally, IFC projects range from small, tented camps in African wildlife locations to large high-rise hotels in Asian cities. They frequently include the rehabilitation and upgrading of landmark hotels (e.g. in Hanoi, Maputo, Warsaw and Zanzibar), where the renovation of historic buildings can help to preserve the local cultural heritage as well as attracting leisure and business tourists. High profile projects with which the IFC is currently involved include hotels in Peru with the Orient-Express hotel group, in Mexico and the Dominican Republic with the Occidental group, and in Estonia with the Reval group.

In Africa alone, as of June 2006 it had helped finance two tourism projects in Botswana, one in Burkina Faso, one in Cape Verde, one in Congo, one in Côte d’Ivoire, five in Egypt, one in the Gambia, four in Ghana, nine in Kenya, two in Madagascar, three in Malawi, two in Mali, four in Mauritius, one in Mauritania, one in Morocco, two in Mozambique, one in Namibia, four in Nigeria, two in Senegal, four in Seychelles, two in South Africa, eight in the United Republic of Tanzania, two in Tunisia, three in Uganda, six in Zambia, and five in Zimbabwe.

Similarly, the World Bank’s Multilateral Investment Guarantee Agency (MIGA) is becomingly increasingly involved in technical assistance projects in tourism in developing countries, with the aim of increasing FDI. For example, promotional activities undertaken by the MIGA-Swiss Partnership programme for investment promotion and outreach in Southern Africa, contributed to the sale of the State-owned Kilimanjaro Hotel and the Zamani Hotel, United Republic of Tanzania, to the United Arab Emirates hotel chain, the Albwardy Group. The Kilimanjaro hotel, which reopened in August 2005, after a $30 million refurbishment, is managed by the TNC, Kempinski, a chain owned by the Thai royal family and with registered headquarters in Switzerland (MIGA 2006).

At the national level, many countries offer investment assistance through government-supported capital funds. For example, the Kenya Tourism Development Corporation aims to act as a bridge between foreign and local investors (see chapter IV for a further discussion on this and other tourism incubators).

Sources: www.ifc.org; www.miga.org; UNCTAD interviews.

3. Impact on human resources

a. Employment generation

The employment generating potential of tourism is one of the reasons that many developing-country governments are focusing their attention on this sector. This is not confined to developing countries: in 2006 tourism accounted for 19 per cent of total employment in Switzerland and for 12 per cent of employment in Italy, according to data released by the World Travel and Tourism Council. At the global level, the WTTC estimates that direct employment in hotels, restaurants, car rental and other tourism activities accounted for some 3 per cent of total global employment in 2007 (table III.3).

Table III.3. Tourism is a significant employer globally

World tourism employment in 2007 (estimate)		Share in world employment (%)
Tourism industry	76 083 550	3
Tourism economy	231 222 200	8

Source: www.wttc.org

Moreover, this number does not take into account the indirect effects on employment generation, nor employment created in the informal economy, which may be particularly important in developing countries. Wider estimates of tourism-related employment (i.e. including people employed in such activities as fuel and catering companies, laundry services and accounting firms) cause the number to rise to around 8 per cent of total world employment, according to the WTTC. If these figures are broadly accurate, this means that for every job created in the global tourism industry, another two-three are created indirectly in the tourism economy. The tourism employment multiplier may be even higher in developing countries: for example, using data for the United Republic of Tanzania in 1992, it has been estimated that every tourism job generated a further 5.4 jobs (Kweka et al. 2003).

The argument that tourism is relatively labour-intensive compared to other economic activities, especially in developing countries, is supported by evidence showing the ratio of tourism's contribution to employment vis-à-vis its contribution to GDP (table III.4). A ratio of 1 indicates, for example, where an activity contributes 10 per cent of jobs and 10 per cent of GDP. For the countries in the table, tourism was more labour-intensive than other selected non-agricultural activities.

Table III.4. Ratio of employment to GDP by sector, 1999

	Indonesia	Philippines	South Africa	Thailand
Tourism	0.74	0.97	0.84	0.93
Manufacturing	0.51	0.43	0.58	0.57
All non-agriculture	0.67	0.72	0.54	0.67
Agriculture	2.75	2.07	9.70	3.67

Source: Page 1999, p. 99.

The positive effects of tourism as a generator of jobs, are countered by the negative argument that tourism is generally a poorly paying sector. This can appear particularly unacceptable in view of the high prices that international tourists are willing to pay for other aspects of their holiday. A study of the hospitality sector undertaken by the International Labour Organization (ILO) found that hotel workers' wages were about 20 per cent lower than those of workers in other economic sectors (ILO 2001). And this is likely to be the case as much in developed countries as in developing ones. However, the working conditions and wider package may be more attractive than other sectors, especially if these are more physically demanding or offer fewer opportunities (e.g. in mining or subsistence agriculture, Cukier (2002) finds that in developing countries almost all employment opportunities associated with tourism, especially for unskilled workers in rural areas, were considered attractive by local residents).

The need for appropriate labour market policies is taken up in chapter IV; for the purposes of this chapter, an empirical question is the extent to which the number of jobs and working conditions generated in tourism are directly affected by FDI. These data are not available in the TSA approach, because it does not distinguish between employment in foreign vis-à-vis domestic enterprises. Some data are available from other sources; for example OECD data reported in chapter II showed that TNCs account for around 10 per cent of employment in the hotels and restaurants sector and most employment is domestic.

There are no comparable figures for employment in foreign hotels and restaurants in developing countries in aggregate, but some evidence can be pieced together from the UNCTAD country studies. One would expect that the job-generating potential of TNC hotels would be a direct function of the number and size of those hotels in a host location; and perhaps also a function of the quality of the hotel, as measured, for example, by the number of employees per guest. Thus a large and high quality hotel might be expected to generate more employment than a small or low quality one. It has been estimated that, on average, in developing countries, two jobs are generated for each hotel room (Christie and Crompton 2001). Another study cited in Page 2001 using data from the hotel sector, indicates that the number of jobs directly generated is 3.3 per hotel room in Africa, a roughly similar amount in South Asia, 1.7 per hotel room in other subregions of Asia generally and 0.5 in Europe.

In absolute terms, therefore, to the extent that TNCs may provide the first or the only hotels in some locations in developing countries, or the largest hotels, their contribution to employment may be significant. Moreover, even where domestic hotels dominate, foreign hotels can still make a positive contribution to complement the overall employment figures in the sector.

These studies have not, however, focused on the secondary question of the employment effects of TNCs vis-à-vis domestic investors. The UNCTAD country case studies found that, in general, foreign hotels can have a marked effect on employment in the emerging tourism markets, both in terms of absolute numbers of jobs and in terms of jobs relative to hotel size. On the other hand, in well-established tourism locations with a healthy domestic sector, their effect is valued more for its contribution to total employment alongside the jobs generated by local hotels. In the United Republic of Tanzania, for example, tourism-related FDI projects reported to the Tanzanian Investment Centre created 10,800 jobs in the mainland and another 9,158 on the island of Zanzibar alone, between 2001 and 2004 (UNCTAD 2007a). Given that total employment cited in the tourism sector in 2004 was some 160,000, this implies that the FDI-associated jobs contributed at least 12.5 per cent to the total jobs, a figure which seems large given that it relates to only four years of FDI.

Moreover, the impact of this may be even more significant in areas where a TNC hotel is the only formal employer, as occurs in new tourism areas, including wildlife areas. The South African TNC, Conservation Corporation Africa, for example, directly employs 300–350 people in remote wildlife areas in the United Republic of Tanzania where there is no other formal economic activity of any kind (UNCTAD 2007a). This could be expected indirectly to have created a large number of jobs in terms of procurement or supply effects. Until a domestic operator emerges in this remote region, this TNC represents the only formal employment opportunity.

Similarly in Bhutan, the two TNC hotels interviewed in 2006 employed some 440 staff between them. Given that labour force surveys conducted in Bhutan in 2004 estimated the total tourism workforce to be between 1,200 to 1,400 people,[11] the contribution made by the foreign hotels is significant, as it is about one third of the total. Moreover, the indirect employment effects may be even greater, given the efforts made by these hotels to procure food and materials locally rather than import them, and this will be transmitted through the multiplier effect. (See section on procurement below, and UNCTAD 2007a). In addition, given the more rural locations of these hotels, there are few, if any, alternative opportunities for formal employment (UNCTAD interviews, 2006.)

The large number of jobs associated with foreign hotels often stems from the fact that they have a much higher ratio of staff employed per room, and there may be even more in terms of total room numbers. In the foreign hotels, the ratio of staff to guests was reported as being in the order of 8:1 (eight staff to one guest), whereas in locally owned hotels the ratios reported were in the order of 1:1 or even 1:2 (one staff to two guests). This was, of course, also related to the differences in prices charged by the foreign hotels and to their market segment. Thus, if more local hotels enter this segment of the market, one might expect the ratio of staff to guests in local hotels to rise accordingly. This is not a comment on the relative productivity of the labour force in tourism in developing countries vis-à-vis developed ones (as made for example by writers such as Caves (1996) or Lipsey and Sjöholm (2004) in the context of FDI and manufacturing), although it is presumably associated with the relatively low level of wages in developing countries, and perhaps also the relative lack of other employment opportunities for people with hospitality industry skills. Hotels in higher income developing economies, such as Singapore or Hong Kong (China), for example, could be expected to have lower levels of staff per guest because the economy offers many more employment opportunities in other services resulting also in higher wages.

A similar picture is evident in Sri Lanka, where a five-star TNC-hotel could employ up to 1,000 staff on a full- and part-time basis, compared to an average of 250-350 staff for hotels in general. This difference in staff intensity is also evident in small hotels; for example, the ratio of staff to guests is very high compared to the average in foreign-owned, small boutique hotels, but low compared to the average in small, locally owned guest houses (UNCTAD 2007a).

However, the effect in more mature tourism economies appears to be less marked. Foreign hotels make a positive contribution to employment overall, but they are not particularly different from the domestic hotels. In countries such as Tunisia and Kenya, there seem to be fewer significant differences in total employment in foreign hotels compared to local ones; nor are there such obvious differences in the ratios of staff to guests (UNCTAD 2007a and b). Differences tend rather to reflect variations in the price of hotels or their target market, and not ownership per se. Mauritius is also an example where there appears to be little difference in the staff-to-guest ratios between local and foreign hotels, with both recording levels of approximately two staff per guest (UNCTAD 2007b) (table III.5).

Another point to note with respect to the job-generating potential of tourism FDI in emerging tourism locations is that a large proportion of the jobs created are for first-time workers or young people, as in Bhutan and the United Republic of Tanzania, for example, in the new foreign hotels. Further research is needed to confirm whether this trend persists in countries with a longer history of international tourism. In Kenya and Tunisia, for instance, both foreign and domestic hotels mentioned staff having worked for 20 or more years, sometimes in the same hotel; but at the same time, the perception is that the industry is dominated more by younger, than older, workers. This is not necessarily incompatible, as there may be turnover in the sector related to other issues; for example, people with hospitality industry skills may find a ready market for their experience in other service sectors.

In all the countries surveyed, there was also evidence of a large proportion of women in employment. This did not appear to be significantly associated with ownership, other than reflecting underlying trends associated with hotel quality and size, or location in areas where there are few other formal employment opportunities. Investment in the tourism industry therefore, may have important implications for national policy goals related to gender.

Table III.5. Employment effects of foreign vis-à-vis local hotels, selected countries, 2006

Employment effect: difference between local and foreign hotels	Country	Absolute and relative employment effect
Little difference	**Mauritius**	No difference between foreign and local hotels in terms of labour intensity. The average ratio is 2 staff to 1 guest.
	Tunisia	Foreign hotels employ slightly more staff per guest, but this is not conclusive as some local hotels also have high staff levels. The ratio depends more on price, quality and type of hotel. 4-star coastal hotels – 0.60 staff : 1 guest (on average) Business hotels – 1.15 staff : 1 guest.
	Kenya	Extremely mixed – no clear pattern of differences between foreign and local hotels emerges. Hotels are a major employer, both directly and indirectly, and differences are due more to the nature of the tourism product and price than to ownership.
	Sri Lanka	Foreign hotels have high absolute numbers of employees (e.g. 1,000 employees in 5-star business hotels) and small, boutique-type hotels have high staff-to-guest ratios.
	United Rep. of Tanzania	Foreign hotels account for almost 12 per cent of total employment in hotels. This reflects their large scale relative to local hotels, or, in the case of small hotels, their higher staff-to-guest ratios.
Large difference	**Bhutan**	A small number of TNC hotels account for around one third of all hotel employees. Each TNC hotel group's employment levels are 180-260, spread over 6+ small hotel locations. Staff-to-guest ratios are extremely high, at 8 staff to 1 guest compared to 1 staff to 2 guests for local hotels. Indirect employment effects are also likely to be large.

Source: UNCTAD, 2007a and b).

Other features of the employment package are also important, such as salaries and job security, in particular. In Tunisia, minimum wage levels are set for different job types, and while hotels can pay above those levels, it is illegal to pay below them. Assuming that survey responses were accurate, a noticeable difference emerged in the interviews. It appeared that foreign hotels paid higher salaries, but for other aspects of the package, the distinction between foreign and local hotels varied. For example, the proportion of low-season permanent staff – an indicator with the greatest variation between hotels – ranged from as low as 4 per cent for a leading European hotel chain to 70 per cent for a leading Arab hotel chain. In the domestic hotels, this ratio ranged from 6 to 8 per cent in one leading hotel chain, to close to 99 per cent in two cases: one a local chain and the other a local independent hotel.

In Bhutan, Sri Lanka and the United Republic of Tanzania, while comparable data on the ratio between full- and part-time staff was not available, it also seemed that foreign hotels paid more than local hotels, whether through a direct salary alone, or through a salary and associated benefits. It was particularly marked in the United Republic of Tanzania, where foreign hotels interviewed cited salaries that were two to three times higher than those cited by managers in the local hotels (UNCTAD 2007a and b). A broad overview of the responses in the different countries surveyed by UNCTAD suggests that, on average, foreign hotels pay more than domestic hotels for similar jobs (table III.6). The findings should however be treated with caution, as the reported salaries are likely to be extremely sensitive to different interpretations of job definition and to the personal characteristics of job holders. In addition, UNCTAD was not able to cross-check responses in order to verify them. Further research would be needed to clarify this.

Table III.6. Selected salary differentials between foreign and local hotels, 2006

Difference between foreign and local hotels	Country	Ratio of foreign salary to domestic salary	Job definition
Large difference	United Rep. of Tanzania	2.4 : 1	Lowest wage reported
		3.0 : 1	Cleaner
		1.4 : 1	Desk manager
	Mauritius	0.97 : 1	Lowest wage reported
		1.03 : 1	Cleaner
		1.35 : 1	Front desk manager
		1.31 : 1	Executive housekeeper
	Tunisia	1.14 : 1	Chambermaid (coastal hotel)
		1.19 : 1	Headwaiter (coastal hotel)
Smaller difference		1.22 : 1	Chambermaid (business hotel)

Source: UNCTAD (2007b).
Note: There was not sufficient data from Bhutan, the Dominican Republic, Morocco or Sri Lanka to include these countries in the table.

An important part of the job package can also include the potential for career development. Generally across the countries it appeared that working for a well-known international brand hotel was seen as bestowing various forms of tangible and intangible advantages. In Sri Lanka, for example, an employee from a TNC city hotel said: "I started working for (name of hotel) four and a-half-years ago, before I obtained the hotel school diploma… I am now assistant to the floor manager. I enjoy this work and I earn good money, and I also want to use this as an opportunity to move up within the (name of hotel) chain. …Some of my student friends are now in very good positions elsewhere, having higher status positions than I have, but I am working for (name of chain) and nothing beats that, as far as I can see" (UNCTAD 2007a).

A final feature of the package may be job security. Managers of foreign hotels reported they were more likely to be able to retain staff for longer periods of time than were local hotels in areas that were newer to tourism. In the emerging tourism economies of Bhutan and the United Republic of Tanzania, for example, local hoteliers complained about the rapid turnover of staff, but this was not a problem for the foreign hotels (UNCTAD 2007a). This could also be a feature of the novelty of the foreign sector in these countries; in Tunisia, for example, there were numerous examples of staff with long-standing employment records in both domestic and foreign hotels.

However it is not always clear how to interpret employment volatility. In Sri Lanka and Kenya, for example, turnover was claimed to be high in the well-known hotels because staff were offered new jobs in hotels in the Middle East, especially Dubai (UNCTAD interviews, 2006). It was argued that the experience gained working for a well-known hotel acted as an effective springboard, opening the door to new opportunities. In the Dominican Republic, both foreign and local hotels complained that they could not retain staff for long periods.

b. Knowledge and skills

In addition to generating employment, potentially one of the most important positive impacts of TNCs is the transfer of skills, knowledge of products and techniques to the countries in which they have a presence. Some observers have argued that the overall outcome of FDI depends critically on the extent to which foreign enterprises transfer their specialist knowledge to domestic firms (e.g. Sinclair 1998). There is a large body of literature describing the potential for transfer of technology from TNCs to local firms (e.g. Blomström et al. 1999 and Markusen 1995 among others), and the problem of technology transfer being constrained by the gap between developed and developing countries (e.g. Caves 1996) may be less likely to occur in tourism as compared to other, more capital-intensive sectors.

In tourism, "technology" can include not only the "hardware" of building and designing a hotel, but also the "software" of skills related to the hospitality industry, including personnel management, financial systems and marketing. The kind of knowledge needed to cover all these aspects is both specialized and extremely diverse, and hence TNCs with global experience can be a useful complement to domestic resources. Building an international business hotel requires a wide range of skill sets and experiences, and even in such countries as Mauritius and Tunisia that have strong domestic sectors, foreign investment has been important for this market. A UNESCO study in the 1980s noted that such top-end business tourism requires "a luxury, sophisticated and highly standardized consumer product … [that] bears little relationship to the production capacities of developing countries. Everything depends on a country's level of development, but, as a general rule, the construction of high-rise buildings with elevators, air conditioning, telephone and electronic facilities, etc., can not be based on local means of production" (Ascher 1985, p. 45). This may be true of fewer countries today, but the point remains that a TNC chain can more readily build such hotels. Of the new hotels being built in Bhutan, for example, a locally owned hotel aiming for the top quality bracket benefited from the involvement of former Swiss and American clients in the architectural design, environmental features, engineering and construction, to complement local skills and expertise. The local owners said they had welcomed foreign business partners for their skills and experience as well as their capital, but had been unable to attract a suitable joint-venture partner (UNCTAD 2007a).

The task of managing such hotels is also a challenge to which TNC hoteliers can add to the experience and knowledge of that available domestically. Management of a large top-class hotel with complex equipment and facilities (such as restaurants, conference facilities and shops, water and sewer treatment plants), a large staff with a variety of skills, and relations with the local community and political establishment is a complex task requiring specialized knowledge. Good hotel managers are scarce, and, whatever their training, they require considerable job experience before becoming effective. As the nineteenth century American writer Mark Twain once commented, “All saints can work miracles but few can keep a hotel”.[12]

In Tunisia, for example, local hoteliers commented that they had learned much from some of the foreign hoteliers in terms of such aspects as management processes and accounting methodologies (UNCTAD 2007a). A Tunisian general manager of a three-star hotel, part of a European hotel chain said, pointing to the manuals of operation beside him: “I will not work with any private (local) investor… the problem is the mentality. In this company we have clear procedures. The sales department goes to the Berlin trade fair, not the owner or his secretary or son.” Another general manager, of a Saudi-owned private hotel, said: “Control here is strict. Every year I have an audit from Saudi Arabia. Every day I fax information to Riyadh. Here it is better, it is the American style. I have my job. I do my work.” Similarly in Sri Lanka, the tourism experts interviewed said they valued the contribution of an international chain in terms of knowledge and expertise. For example, one local respondent said “Yes, I would love some fierce competition from the likes of the (international hotel brand name) – we need to raise our standards and that would be the only way forward.” Others expressed even stronger opinions (UNCTAD 2007a).

The kinds of knowledge needed are not only financial or managerial, nor are they limited to business or conference-related tourism. For example, luxury wildlife lodges and ecotourism – the niche market that many developing countries are targeting – can benefit from the specialized techniques and skills that TNCs can offer to complement local knowledge. The provision of what has been called “barefoot luxury” brings with it challenges, such as regularly providing five-star gourmet catering in a remote wildlife area without shops or electricity; and the clients themselves, whose expectations can match the high prices they have paid, bring different challenges of an equally demanding nature (UNCTAD interviews, 2006). This is not to say that domestic enterprises cannot do this – increasingly, local employees or entrepreneurs hold highly customer-oriented jobs – but simply that TNCs have experience and expertise that can be usefully tapped.

Range and level of skills

One of the reasons that knowledge and skills transfer in the tourism industry is so highly valued is that personal skills are critical at all levels of the tourism chain. This reflects the fact that tourism is an “experience good”, in which final consumers are closely linked with the service providers at all stages of the process of production and consumption. For example, some of the UNCTAD survey respondents argued that no jobs in their hotels could be described as “unskilled”, because at the very least, every worker needed to speak to guests in a language that was usually not their own.[13] This is supported by the argument made in the United Republic of Tanzania, that tourism offers desirable employment opportunities because “it creates life-long jobs, often requiring superior people skills, including specialized positions at the managerial or supervisory levels and careers open to women” (MIGA 2006).

It is not clear whether there is a significant difference in the skills sets required in foreign vis-à-vis domestic hotels, or whether there are simply differences in the perception of the interviewees; further research may be needed on this topic. Since not all the UNCTAD respondents answered this question, the sample size is too small. Moreover, in countries with a long history of tourism, it is likely that the differences in skill levels within hotels are related more to the nature of the tourism or the type of hotel than to the nationality of its owners. Hotels that are more involved in top-end tourism than in budget tourism would be expected to employ a larger number of higher skilled workers, as borne out in the country studies. Although this is more a function of the type of tourism than the ownership of the hotel, it is still a useful impact of TNCs.

However, some tentative evidence supporting the expectations above emerged during the interviews. For example, in Nairobi business hotels in Kenya, the proportion of staff described as having managerial responsibilities ranged from 10 per cent to 18 per cent, without any clear pattern distinguishing the TNC-associated hotels from local ones. However, beach hotels, which are for the most part of a lower standard, reported a smaller proportion of staff with managerial responsibilities, the average being around 3 per cent. The foreign beach hotels reported having a lower proportion of managerial staff compared to the local hotels, but the sample was very small and may not be representative.

In Sri Lanka, where 50 to 60 per cent of staff were described as "medium skilled" and 15 to 20 per cent as "highly skilled", it also seems that the top end hotels employ a larger proportion of higher skilled staff compared to their local counterparts (UNCTAD 2007a). These hotels are more likely to be linked with foreign ownership and/or management. In Mauritius and the Dominican Republic, on the other hand, there was no discernable difference between the responses given by foreign as compared to local hotels.

Training

One of the most apparent differences between foreign and local hotels concerns training. A large investment in human capital, in addition to the provision and maintenance of infrastructure, is critical for tourism development, and it is here that TNCs may make their most useful contribution. They have the benefit of economies of scale and scope, as well as experience in running a systematic training programme directed at international markets. It has was argued above that the overall outcome of FDI depends, in part, on the degree to which specialist knowledge is transferred to domestic firms. Indeed, it was notable that in all the country studies conducted by UNCTAD in 2005 and 2006, this aspect was highlighted by government officials and industry workers alike, irrespective of whether their countries had domestic training facilities or not. This supports the earlier finding by the United Nations Centre for Transnational Corporations (UNCTC 1982), that the transfer of knowledge and skills was considered by the developing countries surveyed to be the most important contribution of FDI in the hotel sector.

The main channels of knowledge transfer are staff training programmes such as on-the-job training, films, lectures, courses at headquarters and instruction manuals. Almost all TNC hotels have elaborate training programmes for their staff, including formal modular education packages than can run from housekeeping skills to top level accountancy; arranging seminars in various parts of the world to bring hotel management in a particular region up to date on new techniques, methods and procedures in all phases of hotel operations, marketing and sales, and international placements within the chain's different locations.

Another indication of the importance of training in foreign and local hotels can be gleaned from the priority given to this activity. Not all interviewees answered this question in a way that allows direct comparison, but a general impression seems to be that foreign hotels spend more. In some foreign hotels, a regular proportion of annual sales is earmarked in advance for training (e.g. 2–3 per cent), while in others the expenditure is determined in a more ad hoc manner. One respondent (a foreign hotel in Kenya) cited expenditures of up to $60,000 on training in one year, although others did not give a financial breakdown. In the Dominican Republic, managers of both national and foreign hotels accorded high importance to training, and their employees assist in running external training courses regularly and frequently. However, foreign hotels tend to spend more on training than national ones, partly because the latter tend to rely heavily on INFOTEC, a government training institution, while foreign hotels do not appear to use it. In Tunisia, foreign hotels' expenditure on training ranged from $15,000 to more than $100,000 compared to a range of $4,500 to $22,000 by local ones (UNCTAD 2007a). . The Government levies a specific training tax on the tourism sector, and hoteliers can opt to spend the money directly on training and deduct expenditure from the training tax, so that training is the norm in all hotels. However this can vary. These broad findings reflect the conclusions of an ILO study on human resources development in tourism, which found that large hotel chains are more likely than smaller chains or independent hotels to offer proactive training courses taught by training specialists and with a focus on staff development (ILO 2001).

There may also be differences in training related to the particular choice of skills that are emphasized. South African hotels and lodges located in Kenya and the United Republic of Tanzania, for example, reported reflecting the ideals of South Africa's Black Economic Empowerment programme in their hotels in other African countries, in addition to other hotel management skills (UNCTAD interviews, 2006).

The gain to the host country is not only that the hotel is run efficiently but also that these skills may spread to the local segments of the tourism industry through the mobility of managers and labour. For example, interviewees in the UNCTAD survey cited examples of senior staff employed in local hotels receiving training and gaining experience with TNC hotels at some stage of their careers.

More generally, the significance of the training offered by TNCs may vary, depending on the level of development of the local economy and its supporting environment for tourism.[14] For example, in Kenya, the benefits of a strong local training programme are clear, as the graduates of Kenya's Utalii hotel and tourism school are to be found in top managerial positions in numerous hotels throughout Kenya, and are also frequently employed in hotels in the region and beyond. Many appear to be employed in the United Republic of Tanzania and Dubai, for example. However, even where local training is considered very good, there are still inevitable gaps between the skills provided and those that are required in the industry, for which the experience and training gained in a TNC hotel is valued. This is particularly marked in some of the countries that are newer to international tourism, and which currently lack a tourism training school. For example in the United Republic of Tanzania, training must be provided in-house. For one newly opened TNC hotel, for instance, intensive training started six months before the opening. Similarly in Bhutan, some local hotels are trying hard to train their staff in the skills required, but because of their smaller scale and lack of experience they are at a disadvantage compared to foreign hotels (box III.7).

Box III. 7. Hotel training: challenges and some original responses in an LDC

One important contribution that many developing countries and LDCs expect from foreign hotels concerns human resources development and training. TNCs have the benefit of economies of size and scope, as well as experience in providing a systematic training programme directed at international markets, something that may be difficult for domestic firms to replicate. In Bhutan, for example, one TNC hotel began recruiting and training local staff a year before it opened. In part, this was to make the best of an unanticipated delay in opening, but it also indicates the resources that are available to global hotel

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Box III. 7. Hotel training: challenges and some original responses in an LDC (concluded)

chains. New workers spent a year in the chain's hotels in Asia and elsewhere, learning new skills and techniques and the ways of operation of an international hotel, in addition to the exposure of living in a different country. From the hotel's point of view, they had an experienced local crew ready for the its opening in 2005.

In comparison, in a new locally owned hotel that most closely targets the same high-end market, the owners rented a building near the hotel under construction, and used it as a classroom. Using a makeshift kitchen, the first-time employees were trained in cooking, waiting and other elements of customer relations, taught by consultants employed on contract from India. This hotel aims to have the same standards as its foreign competitors and has clearly made a significant investment to this end. In most other local hotels, new entrants were trained in-house, learning more informally from older staff or from the hotel managers. One owner observed that this was not the best approach, but he believed he had no other options. Some local hoteliers were sceptical about the value of training as they experienced high staff turnover – there appeared to be a vicious cycle whereby low-skilled and low-paid staff did not stay long in their jobs, undermining both their ability to gain skills and the owner's incentive to train them. It is a cycle because if the owner is not willing to invest in training, the good staff are less likely to stay.

The point is that it is harder for local investors to achieve the same training standards as well-known TNC hotels. It is costly for them to run one-off courses compared to the ease with which the large international chains can absorb and train new entrants, and, in the case of the local hotel that set up its own "school", it was paying wages to staff that were not yet contributing to the payroll. In hotel chains, on the other hand, employees work while training, thus contributing at least partially to the costs of their upkeep.

Training of tourism workers is an important area for government support and promotion. The Government of Bhutan recognizes this and is planning to establish a tourism training school. International experience is also offered through a number of donor exchange programmes organized by Austria, France and Switzerland, among others. The training opportunities provided by the local and international hotels will then be more evenly balanced by a variety of sources of training within Bhutan.

Source: UNCTAD interviews, 2006.

Recognizing the importance of knowledge and skills in the tourism economy, most developing countries have established, or are in the process of establishing, hotel training schools. Kenya's Government-run hotel training school has provided skilled new entrants for hotels throughout Africa, and more recently also Dubai. However standards in all hotel schools need to be continually improved, and kept up to date with industry expectations. In other countries, hoteliers reported that it was disheartening to see graduates had invested time and money in poor quality training, and there are clear policy implications of this that are raised in Chapter IV.

As long as countries face a shortage of skills, this will undermine their ability to improve their position in the increasingly competitive world of global tourism. In the Caribbean, for instance, according to the Economic Commission for Latin America and the Caribbean (ECLAC), "the tourism industry continues to be plagued by poor, or non-existent human resource policies and practices. People are the basis for delivering tourism and hospitality products and as such the large majority of the regions problems, and its inability to compete globally, can be traced to deficiencies in this area" (ECLAC 2003, p. 46.) Even in Mauritius, where skill shortages at the entry level were eased with the establishment a few years ago of a hotel training school, there remains a shortage of skills at middle and higher management levels, and "hotels already poach from one another" (Christie and Crompton 2001, annex 4, p. 36). In some developing countries that have experienced tourism booms in recent years, TNCs have become involved in establishing training centres. In Dubai, for example, the Dubai-based hotel management TNC, the Jumeirah Group, established the Emirates Academy of Hospitality Management, a hospitality and tourism training school with 250 students from over 45 countries (www.Jumeirah.com). Similar strategies have been followed in China, which is experiencing a hotel construction boom in high-class accommodation. The State and investors there are responding to the lack of qualified managers, which is a serious problem for both foreign and local hotel groups (box III.8).

Box III.8. Lack of management skills: a constraint on China's hotel boom

China is experiencing an unprecedented hotel boom. Local and foreign hotel groups are planning to build thousands, if not tens of thousands, of new properties over the next decade. Many high-class category hotels will have to be opened during the next two or three years, before the Olympic Games in 2008, for which thousands of qualified managers will be needed. This puts an enormous pressure on the region's hotel training establishments, such as the School of Hotel and Tourism Management at the Hong Kong Polytechnic University. Since they are unable to meet the demand, hotel operators are doing what they can to create legions of managers as soon as possible, including:

- Asking educational establishments to put together short-term management programmes, such as the Hong Kong Polytechnic courses, for several hospitality groups operating in China. The Polytechnic has also designed a master's degree curriculum for staff members of a business hotel in Guangzhou.
- Using a chain's existing executive training programmes and exposing students to international work experience. Starwood, for example, which plans to add 15 hotels in China by 2008 (in addition to its existing 19), will increase the number of students from mainland China in its corporate leadership training programme. The chain has already sent 17 Chinese employees to live and train at its hotels in Singapore, its regional headquarters, and more managers are expected to follow.
- Shangri-La, a Hong Kong (China)-based TNC, has built a hotel school from scratch. Its Shangri-La Academy, located close to Beijing, was inaugurated in December 2006. The Shangri-La group is already the largest operator of luxury hotels in China, with 40 hotels. Within five years it plans to open more than 40 new hotels, which will require doubling its workforce.

Source: *International Herald Tribune,* "In China, a rush to train 5-star staff for luxury hotels", 8 July 2005, p. 18.

c. Expatriate employment

An issue of concern for many developing countries is the perceived reluctance of TNCs to employ local staff in senior managerial positions. Critics fear that the potential for skills transfer to local employees will be diminished if they are not given the opportunity to become managers. There are also concerns that TNCs crowd out employment prospects in local enterprises, if, for example, local hotels lose market shares to their foreign competitors.

The UNCTAD interviews and case studies found that the picture was rather more varied. Most foreign hotels have at least one or two expatriates employed, usually in the positions of general manager and or chef, but many more expatriates in the countries that are relatively new to international tourism. Also, many locally owned hotels employ expatriates in similar roles. Not all these expatriates are from Europe or North America as might be assumed; many are from other developing countries in the region. For example, it was seen that Tanzanian hotels employ South Africans and Kenyans, Sri Lankan hotels employ Indians, and Bhutanese hotels employ expatriates from India, Thailand and Singapore, as well as from North America and Europe. In some instances there is an association between the nationality of the expatriates employed and the ownership of the hotel chain (e.g. Germans were employed in a German owned hotel in Sri Lanka), but especially in the larger global hotel chains managers are from a diverse range of countries.

As shown in table III.7 below, the UNCTAD interviews revealed that the proportion of expatriate employment is typically small as a percentage of total employment. The relatively higher levels indicated for Bhutan and the United Republic of Tanzania suggest that this may be related to the length of time in which a country has hosted international tourism, but even in these cases, the findings support the conclusion of others, that "the perception of foreign-dominated management of hotels (in developing countries) is questionable today" (Christie 2001, pg 22).

Table III.7. Expatriate employment in hotels in selected developing countries, 2006

More expatriates	Country	Expatriate employment (average)		Comments
		Number per foreign hotel	Percentage of employees per foreign hotel	
	Bhutan	10-15	5-8%	Most expatriates in foreign hotels are from other developing countries (e.g. India, Malaysia, Sri Lanka, Thailand). Less than a quarter of expatriates are from developed countries. Many of them are employed in food and beverage activities. Local hotels also employ expatriate staff, usually Indians, in all positions, but most frequently in food and beverages.
	Dominican Republic	4-10	Very few to 4%	Expatriates are mainly in management and high-skill jobs. Local hotels also employ expatriates, but to a lesser degree.
	United Rep. of Tanzania	3-7	4% of total employees in 5-star hotels, but 50% of high-skill employees	Main expatriate positions in foreign hotels are: chef, general manager and financial manager. Many expatriates are from the region (Kenya, South Africa) in addition to international expatriates. There is little, if any, expatriate employment in locally owned hotels.
	Sri Lanka	1-2	1-2%	Expatriates are generally found only in hotel chains or hotels wholly-owned by foreigners. They are most frequently employed in food & beverages (e.g. as chefs) and are often of Chinese or Indian origin; few are from developed countries.
	Tunisia	1-2	Very few	Foreign hotels are marginally more likely to employ expatriates than local hotels, but only in business hotels. There are very few expatriates in coastal hotels, although some work in locally owned hotels. Main positions: chef, general manager. Some expatriates are undeclared.
Fewer expatriates	Kenya	1-2	Very few	Local hotels are as likely to employ expatriates as foreign hotels, in some cases more likely. (One local hotel had 7 expatriate workers). Mostly employed as chef or general manager.

Source: UNCTAD interviews, 2006.

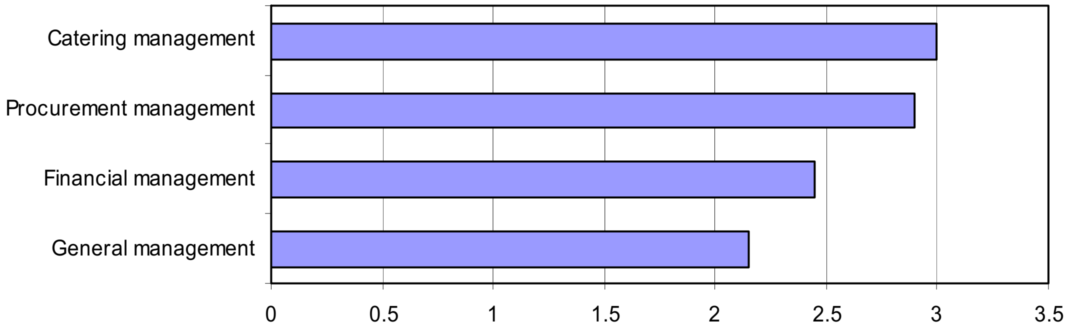
In terms of managerial skills required, evidence from the country case studies indicates a reliance on expatriate catering management, which was somewhat surprising given the common assumption that it is financial or general managerial skills that are most typically lacking. The expatriate chefs are usually experts in French or European cuisine, but there is also an emerging trend of high demand for chefs with experience in Korean or Chinese cuisine (UNCTAD interviews). The second most frequently cited group in the country case studies tend to be senior management, in particular general manager or financial manager. In the developing countries with a longer history of tourism, local employees generally hold these positions. In Tunisia, for example, it was reported that an experienced and well-trained hotel management cadre has emerged, many having worked in Europe and the Gulf States in addition to their formal training. There is still a large gap in salaries, which could be why hotel investors prefer hiring locally where possible: a Tunisian senior manager paid in dinar typically earns much less than the international salary expected by a foreign hotel manager. Expatriate employment levels are similarly relatively low in Kenya, and local hotel owners are as likely to employ foreigners as are the foreign hotels. The hotel with the largest number of expatriate workers (7) is locally owned, and in some foreign hotels there are no expatriate employees. For example, a South African wildlife lodge chain employs no expatriates in its Kenyan operations, and in Sri Lanka, it was estimated that only 1-2 per cent of hotel staff are expatriates.

In the emerging tourism economies such as Bhutan, the Dominican Republic and the United Republic of Tanzania, the total share of expatriates appears to be higher, especially in senior management. The same South African wildlife chain cited above employs significantly more expatriates in its Tanzanian operations. However, in both of these emerging tourism economies, the foreign workers are not necessarily from the same country of origin as the hotel owners: numerous expatriates in Bhutan are from India, and many in the United Republic of Tanzania are from Kenya.

One major factor affecting the hiring of expatriates in any location is local availability of the required skills and expertise. From the perspective of TNC headquarters, the UNCTAD survey of global hotel groups (chapter II, box II.2) asked companies to rank the degree to which skills and services were available in the developing countries in which they had a presence. A ranking of 4 denoted "mostly available" while 1 denoted "mostly lacking". Twenty-two hotel groups answered this question and the size of the hotel group had no influence on the rankings, because the results were very similar.[15] As shown in figure III.4 below, financial and general management staff were reportedly the most lacking, with a mean score of 2.5 and 2.2 respectively; whereas catering and procurement staff were reported to be more readily available, with a mean score close to 3. This is somewhat at odds with the results of the country case studies, which suggested a high level of expatriate staff in catering. Further research would therefore be required to answer this question more fully, and to advise hotel training schools in developing countries as to which skills are in short supply.

Finally, on the issue of expatriate employment, it is often forgotten that one of the advantages that TNCs can potentially offer local staff is the opportunity to become expatriate workers themselves, working in the chain's hotels in other countries and learning new methods of work as well as gaining experience and a more global view that could help them to further their careers. However some hotel managers in developing countries interviewed by UNCTAD commented that this avenue for staff advancement was closed to them because of barriers to mobility, especially, for example, South African hotel workers who had difficulties obtaining visas to work in the United Kingdom or in other European countries (UNCTAD interviews, 2006).

Figure III.4. Relative availability of managerial skills in host developing countries
(Responses from 22 hotel groups: 1 = mostly lacking, 4 = mostly available)



Source: UNCTAD (2007).

4. Impact via procurement and supply chain linkages

One of the greatest expectations related to tourism-based economic development has been that the economic benefits from tourism would spread to other areas of the economy, such as agriculture, construction, infrastructure and manufacturing, through supply chain linkages and multiplier effects. For example, almost all countries have a construction industry of some sort, and some of the raw materials needed to build hotels and infrastructure, such as roads. Most countries produce food and beverages, and many produce furniture, fixtures and the other items necessary to equip and run a hotel. Services used by tourists, such as transportation, financial and medical services, are location-bound and have to be provided by firms within a destination country.

Indeed, the extensive value chain in tourism provides much potential for local value chain development (as discussed in chapter II), and the greater the extent to which the tourism sector is linked with other sectors of the economy, the greater should be the effect on, for example, direct and indirect employment and revenue generation – an important issue for most developing countries. In addition, a few developing countries that have national airlines could potentially gain additional export revenues from trade in international passenger transport services.

In the general FDI literature, discussion on these sorts of forward and backward procurement linkages usually focuses on their indirect effects on the domestic economy, occurring for example through inter-industry productivity spillovers to local firms. Backward linkages from TNCs may offer a way of raising the productivity of local supplier firms, or improving the quality of their products (McIntyre, Narula and Trevino 1996), or assisting with diversification (e.g. Lall 1980); or there may be important benefits over time, as in the Asian electronics sector (Urata et al. 2007). Forward linkages from TNCs may be even more important if they provide benefits to local firms in terms of knowledge or marketing skills. In the tourism literature, however, there tends to be a focus on the implications of procurement linkages from the perspective of what it means for national tourism-related imports and leakages. It is not possible for any country to produce all tourism services and goods locally, and as described in box I in this chapter, tourism also gives rise to imports of goods and services that are either not produced locally at all, or for which local production is not competitive. The following pages focus on local procurement effects by TNCs in tourism to give an idea of some of their potential leakage effects, and as a lead-up to the discussion in subsection 5 on domestic enterprise development. During the case study interviews, hotel and tourism enterprise managers were asked about their purchasing decisions, including the value of expenditure and the proportion of goods and services purchased locally and imported. Questions concerned day-to-day expenditures (e.g. food and beverages) as well as occasional expenditures such as on construction, refurbishment and redecoration. Taking a broad overview of all the countries surveyed, it appears generally that the level of imports of tourism-related goods and services appears to be determined more by the nature of the tourism activity, the level of local supply capacity and the stage of development of the tourism industry than by ownership.

The country case studies and survey found that, in general, TNC hotels obtain current purchases, particularly foodstuffs, locally whenever there is an adequate and assured supply of the correct quality at a competitive price. They make a significant proportion of their purchasing decisions at the local rather than corporate level, and the more that is available locally, the more they are prepared to buy locally. Often, there is not much difference between the TNCs and the local hotels, the differences between them being more a function of their price range and quality. In countries or regions where less is available locally, all hoteliers purchase less locally (table 8). It is of course possible that some so-called local purchases are imported goods purchased through local wholesalers, but the point is that the responses from both local hotels and foreign hotels of the same price range or quality tended, on balance, to be similar on these points.

Thus, for example, in the mainland of the United Republic of Tanzania, interviewees reported that 60-70 per cent of food and most non-alcoholic beverages come from local sources, while alcoholic drinks are mostly imported. There appears to be less local sourcing in the island of Zanzibar, where the local economy is much less diversified than the mainland, which means that less is available from local enterprises or suppliers. In both instances, there was little difference in the responses from the foreign and local hoteliers of the same hotel categories. In Morocco, hoteliers are so accustomed to being able to purchase all they need locally that they did not appear to see the point of the question. Similar findings were reported in Tunisia and Kenya – both countries with a long history of tourism. In Kenya, for example, with its diversified economy, typically between 90 to 100 per cent of foodstuffs are purchased locally, by both locally owned and foreign-owned hotels.

In addition to the question of relative shares of purchases made locally, the absolute value of purchases is also significant. Not all the case studies were able to provide information on this, but in Nairobi, Kenya, one five-star TNC business hotel alone cited expenditures of $100,000 per month on food products and $3,000 to $4,000 on cut flowers. In another Nairobi-based TNC business hotel, the manager of a locally owned four-star hotel cited expenditure on laundry worth $207,000, food $400,000 and maintenance $256,000 per annum. These two hotels are larger than the average, but in the top-priced markets even rather small enterprises can incur significant procurement expenditures. For example, a TNC with two small wildlife lodges (with a total of 49 luxury tents) in the Masai Mara National Park cited total expenditures of $1.2 million per annum in salaries, food and other purchases. The Kenyan manager of the South African firm estimated that 90 per cent of this expenditure is on goods and services produced locally. These expenditures are not insignificant in absolute terms, and many of them are made in the immediate area, where there are few other enterprises. But given the high proportion of local expenditure and the number of hotels or tourism enterprises in Kenya, it represents a significant multiplier throughout the tourism economy.

In other countries where it is not easy to purchase foodstuffs from large-scale retail outlets, or where imports are readily accessible or cheaper than domestic products, one would expect the level of goods imported to be high. This can be an important issue for island economies, or for small economies with a large and more economically diversified neighbour. Of course not all inputs to the tourism industry are likely to be economical to produce within the country. For example, as the general manager of one foreign hotel in Bhutan noted, the quantities required are often too large to be met by local production capacity. Local weavers or artisans are generally able to produce high quality goods in small quantities, but once a more industrial mode of production is required, for example to produce quantities of more than 400 items, hotels are forced to import from India, even if they have a strong preference for local goods.

In other areas, however, where local production is feasible, hotels do not buy goods or services locally. The UNCTAD interviews found that local hotels in Bhutan, for example, import to a very large extent, including foodstuffs that appear to be available locally. The foreign hotels and one local hotel in the very high price bracket stood out in their efforts to source produce locally. This included giving local farmers seeds to plant and making guaranteed purchasing commitments for all fresh produce in order to encourage local production (UNCTAD 2007). These hotels, reported that on principle they prepare as much food as possible, rather than buying prepared products from neighbouring India, which appears to be the main mode of operation of the local hotels. According to the general manager of one TNC hotel, none of the other tourism enterprises adopt such an approach. The implication is that an opportunity to capture more of the tourism value chain has been missed – not only for its employment effects, but also because local hotels would be able to charge higher prices if they offered higher quality food. Secondly, it may be important to distinguish between the effects on the immediate local economy and the national economy. A rare and highly detailed study by Torres (2003) on procurement in the new tourism and conference destination, Cancun, found very little difference in the procurement behaviour between foreign and local hotels of the same level. Both groups purchased the majority of their inputs domestically, not only from the area around Cancun, which was not able to meet the rapidly growing demand, but also quite a lot from other regions of the country.

A second important effect on procurement concerns how the hotel is built. If the hotel is built by a TNC from the initial planning stage, additional foreign exchange costs may be generated by overspecification or excessive use of imported materials where local substitutes are available. However, this cannot be assumed. UNCTAD found that in some cases the foreign investors were actually more likely than domestic ones to use materials found locally. The use of local design, materials and creative products is often encouraged by development-oriented investors such as the IFC (box 6) or the Serena chain, owned by the Aga Khan group of hotels; but it also reflects the trend towards a more "authentic" tourism experience that appears to be driving the high-price tourism market. The promotion of local construction methods and materials has been explicit in Botswana, where foreign investors have been required to build hotels and lodges in a small-scale style that is compatible with the local design, using local materials. They are still extremely "luxurious". In Bhutan, which similarly offers a niche style of tourism product, UNCTAD found that local investors building five-star hotels intended to import luxe building materials from Europe while foreign investors sought to use more local products.

But this is also very much a factor of what is available. Hotels in the United Republic of Tanzania, for example, are more likely to import building materials and general goods and services (including foodstuffs) than hotels in Kenya, simply because the domestic economy is not able to provide the materials needed. And within the United Republic of Tanzania, it is easier to find what is needed locally if the hotel is on the mainland rather than on the island of Zanzibar. Hotels in Zanzibar reported that they imported 40 per cent of their hotel uniforms, for example, while those on the mainland reported importing only 28 per cent and buying the rest locally.

Table III.8. Procurement patterns and purchases for selected countries

Local procurement	Country	Percentage of local purchases of foodstuffs	Percentage of local purchases for redecoration, maintenance and refurbishment
Low	Bhutan	5% (Local hotels) 70-80% (TNC hotels)	Only raw materials (cement, slate, timber and some textiles)
	United Rep. of Tanzania – Zanzibar island	Less than 60% (TNC hotels same as locals)	10%
	United Rep. of Tanzania – mainland	60-70% (TNCs same as locals)	30-20%
	Sri Lanka (5-star)	60-65% (TNCs same as locals)	5-10%
	Tunisia	90% (TNCs same as locals)	Data not available, but the level of imports is estimated to be low.
	Kenya (5-star)	90-100% (TNCs same as locals)	90%, with the exception of cutlery, kitchenware and electrical equipment TNCs the same as locals
Very high	Dominican Republic	90-100% (TNCs same as locals)	90-100% (foreign hotels tend to import some fittings)

Source: UNCTAD, 2007.
Note: There was insufficient data from Morocco.

5. Tourism-related FDI and domestic enterprise development

One of the reasons that expectations of TNC hotel are high in many developing countries is that tourism appears to offer a great deal of potential for the development of domestic enterprises. As described above, the cross-cutting nature of the tourism industry creates many opportunities for domestic enterprises to create linkages, both upstream and downstream, with TNC hotels and tourism enterprises.

As mentioned in chapter I, much of this potential has indeed materialized, including in the accommodation sector, the focus of this chapter. Despite the fact that FDI is concentrated in this area of the tourism industry, the majority of tourist accommodation capacity in most developing countries is locally owned. Many of these enterprises are small: according to estimates of the World Tourism Organization (UNWTO 2001, p.64), some 85 per cent of total tourist accommodation capacity in developing countries is provided by SMEs, predominantly local firms.

One reason why local small and medium-sized hotels can coexist with TNCs is that while the latter may offer a host country particular advantages over smaller indigenous competitors, there are many tourists and business visitors who prefer the kind of ambience or price which the smaller and less formal, locally owned and managed hotels may offer.[16] This can help explain why the literature seldom mentions the problem of TNCs crowding out domestic hotels and guesthouses.[17] Indeed, TNCs are generally perceived as complementing domestic enterprises. In Sri Lanka, for example, domestic hoteliers anticipated positive spillovers if big brand name hotel chains could be attracted back to their country (UNCTAD 2007a). Even when foreign hotels receive negative publicity, such as in the Kenyan newspaper article cited in chapter II, criticism is usually focused on so-called leakages or ownership, and not on whether foreign investors crowd out local ones.

Another factor that facilitates domestic enterprise development is that TNCs' advantages are not equally pronounced in all areas of their operations, and the possibility of unbundling the package of resources (skills, capital, branding etc.) transferred by TNCs is easier and more real than in many other industries. In many large middle-income developing countries, such as Mexico, Brazil or the countries of West Asia, there is plenty of local capital for hotel investment. Moreover, much of the international knowledge and information needed for hotel construction and operations can be obtained through routes other than FDI. There is a well-organized international market in hotel development consultants, management, professional and technical staff and capital for financing hotel construction.

Furthermore, apart from equity investment and management contracts, the choice of arrangements in the hotel industry, permits unbundling of resources depending on the availability of local resources and expertise. As described in chapter II, these can include leasing arrangements, technical service agreements, franchising or management contracts, each of which embodies a different level of involvement from local enterprises vis-à-vis the foreign ones. Which form is best for a host country and for domestic enterprise development depends on a number of factors, including the type of tourism that the host country desires and is able to develop (e.g. 3S tourism, low-volume, high-income tourism, special interest tourism), the supply of domestic capital for hotel construction, equipment and operation, the existence of complementary human resources – both lower skills and higher catering and managerial skills – and finally, knowledge of the markets in the main tourism-generating countries and the ability and willingness to undertake independent marketing efforts.

For the domestic enterprises supplying inputs to hotels, it is also clear that there is a great deal of potential for employment generation and entrepreneurship. As indicated in subsection 4 above, the value of the procurement linkages with TNC and domestic hotels can be high, even in the relatively low-value-added areas such as food production. This may be particularly significant in countries with a comparative advantage in agricultural produce and high levels of unemployment. Studies in Indonesia, for example, estimated that the backward value chain multiplier in the restaurant sector was 1.2 (i.e. a one unit increase in output in restaurants resulted in an increase of 1.2 units of inputs from other sectors). Similarly the income and output multipliers were each around 1.9 (i.e. a $1 investment created income or output worth $2) (Basri et al. 2005) UNCTAD Expert Meeting 9 February 2005).

A single foreign hotel in Paro, Bhutan, spends $10,000 a month on food alone, of which the majority is reported to be sourced from domestic suppliers. While this amount is higher than the average locally owned hotel would spend, the value of food for the whole industry is significant. For example, one SME in Bhutan earns a weekly income from the sale of mushrooms to hotels that falls in the country's top 20 per cent of earnings (UNCTAD 2007a). Mushrooms are a complement and not a staple of the Bhutanese diet, which implies that, given the high earnings from this food product alone, the potential for the food sector as a whole could be economically much more significant. Initiatives in Jamaica reflect this growing awareness (box III.9). This finding is not confined to small or primarily agricultural countries. Even in countries with a much more highly diversified economic base, the impact of tourism on local economic activity can be particularly significant. For example, an official from the Ministry of Trade and Industry in Kenya told UNCTAD researchers, "When tourism is going well, the whole economy is going well." To the extent that TNCs boost tourism, the link between them and domestic enterprise generation can be extrapolated.

Recognizing the wider benefits of these potential linkages, a number of development agencies and corporate social responsibility initiatives are directed towards promoting the role of domestic entrepreneurs in the supply chain of TNCs in tourism. Almost all the hotel groups interviewed by UNCTAD as part of the global survey of TNC headquarters and the country studies, found examples where hotel managers aimed to boost purchases from local SMEs or individuals. In some cases this was somewhat of an uphill battle, as the hotels' needs were very different from what local suppliers were used to, but in other cases the ability to provide what was needed was achieved relatively quickly.

In Dar-es-Salaam, for example, a South African TNC hotel manager spoke of his goal of procuring locally as much as possible, even though in many cases this is very difficult because supplies are inconsistent. The TNC has access to two corporate wholesale facilities (in South Africa and London) but buys as little from them as possible, due to a conscious policy of strengthening local entrepreneurship. "If we can't buy it in Dar-es-Salaam, we try Tanzania, and if not Tanzania then East Africa…" before using the corporate procurement possibilities. This emphasis on building local entrepreneurial skills has practical implications even at the level of ostensibly small purchases. The hotel makes direct links with agricultural producers in order to ensure the produce is of suitable quality and reliability, and meets health and hygiene standards. For example, in order to procure eggs of the appropriate quality, including yolk colour, the local egg farmer was encouraged to meet regularly with the hotel chef. (International tourists usually expect egg yolks to be yellow, whereas the meal eaten by hens in East Africa tends to produce eggs with very pale yolks.) Such initiatives also create a sense of responsibility, as the hotel is aware that if it stopped buying, the supplier would go out of business (UNCTAD 2007a).

Recognizing the importance of creating commercial and economic linkages between TNCs and the local environment, donor and development agencies are increasingly partnering with TNCs to help kick-start these initiatives. One example is the activities of the Orient-Express Hotel Group (OEH) in Peru, where it had been spending around $200,000 a year on social and educational initiatives, but found that this created a dependency relationship. The Group and IFC then agreed to collaborate on a six-month training pilot scheme, focusing on linking local producers and service providers from the region to the commercial opportunities generated by the presence of the hotel and railway service. After a series of ups and downs (for details, see IFC undated), this has now culminated in the creation of a trout farm, a potato farm and a cultural dance group, all to serve the needs of OEH's hotels and railway service in the Machu Picchu area. The projects generated at least 26 jobs for young adults, and sales to the group of 500 kg per month of trout and 100/150 kg of native potatoes. One of the lessons learned was that linkages could only be successful if the product suited the productive capacities of the local environment: a lamb farm was abandoned after the OEH chef found the local infrastructure for butchering and refrigeration to be inadequate, and sales of corn-on-the-cob to railway passengers also failed to meet standards of quality and presentation. Similar initiatives have been promoted by the Pro-Poor Tourism Programme of the United Kingdom's Overseas Development Institute (ODI).[18] And a particularly successful example is the Berimbau project in Brazil, where TNCs worked hand-in-hand with the Government to create business linkages with the domestic economy, which included agricultural production, a textile factory and refuse recycling and disposal businesses. The policies encouraging these efforts are described in more detail in chapter IV.

More generally, the extent to which TNC presence can have an impact on domestic enterprises may be related to history and the development context. As noted in the UNCTC study in the 1980s (cited above), and reflected in the country studies undertaken by UNCTAD in 2006, TNCs may provide significant net benefits in the initial stage of development of tourism in developing countries, especially those with limited capabilities and capital, but over time some of these benefits may decrease. Past experiences of developing countries which initially relied on TNCs suggest that TNC advantages can diminish once the host country has acquired experience and reached a certain educational level so that locally owned and operated hotels can operate successfully achieving performance results comparable to those of the TNC hotels. Cases in point are Kenya, Tunisia and Spain (UNCTAD case studies, and UNCTC 1982, p. 53) and more recently, Jamaica, where a local enterprise has successfully expanded into a hotel chain serving the Caribbean region (e.g. the Sandals chain of hotels, which has its headquarters in Jamaica (box III.9).[19]

The extent to which TNCs offer benefits to domestic enterprise development in host developing countries therefore may depend on the type of tourism a country is seeking to develop, the size and level of development of the country, and government policy. If the country wishes to concentrate on low-volume, high-income tourism, and if it is a small economy at a relatively early stage of development, it may take some time before domestic enterprises are able to provide a similar level of services as TNCs. However, in a tourism strategy that is more oriented to lower-income, mass-market tourism, the advantages held by TNCs may be only transitory, and domestic enterprises may become competitive alternatives much more rapidly. The policy implications of these approaches are discussed in more detail in chapter IV.

Box III. 9. Jamaican TNCs and agriculture-tourism linkages

Like many small island or landlocked economies, the Caribbean islands generally produce only a narrow range of agricultural produce that do not necessarily respond to the requirements of the market. However, at least two major TNCs in the region are trying to help improve linkages with local farmers. For example, Superclubs, a leading all-inclusive global company with headquarters in Jamaica, signed a memorandum of understanding (MOU) with the Jamaican Agricultural Society (JAS) to help promote the "Eat Jamaican" campaign in its hotels and resorts. Since its launch, the JAS has reported an increase in demand and growth in the agricultural sector, linked to the purchase of fresh fruit and vegetables by the large hotel chains. Overall, the hotel and restaurant industry in Jamaica is estimated to purchase $2 billion worth of produce from farmers annually (Meyer 2007).

The Sandals Group, an all-inclusive holiday resort company based in Jamaica, with 12 resorts located in Jamaica, Saint Lucia, the Bahamas and Antigua, has made similar efforts to boost local farmers. The Sandals' Farmer Programme in Jamaica began in 1996, with the aim of developing good working relationships with farmers and hotels, by improving the quality of produce, developing proper arrangements and improving communications between the farmers and hotels. A farming expert funded by Sandals worked with farmers to improve production quality and supply; and an agricultural organization, along with the Rural Agricultural Development Authority, also provided support to the farmers. Management teams from the hotels visited the farmers to discuss quality and marketing procedures, and contracts specifying volumes and prices for the produce to be traded were established.

Despite some initial problems, substantial progress has been made. The project began with 10 farmers supplying two hotels and now involves 80 farmers across the island. Within three years, sales have risen from $60,000 to $3.3 million. One Sandals resort alone spent $7,000 per month on watermelons and canteloupes purchased from farmers in the programme, creating an income of around $100 for each of 70 families. The hotels have also gained from having a wider variety of good quality local produce and cost savings, as well as promoting the company's image. The programme is now being expanded to Sandals hotels in Saint Lucia and Antigua.

Chapter IV provides additional discussion on some of these issues.

Source: Business implementation of pro-poor tourism: case-study briefs, http://www.radajamaica.com.jm/marketing/sandals.htm, and Lengerfield and Steward (2004).

6. Tourism-related FDI and the environment

In the initial stages of tourism development, tourism planners, as the world in general, paid little attention to environmental issues. However, since the 1990s, the world environmental movement has gathered momentum, as has understanding of the consequences of the degradation and pollution of nature-based assets in tourism. Efforts by groups that have been critically looking at the impacts of tourism have resulted in rethinking the tourism development model. This has led to several declarations and documents providing guidelines and frameworks for environmentally responsible tourism such as the Berlin Declaration of 1997 on Biodiversity and Tourism, the WTO/OMT Manila Declaration on the Social Impact of Tourism, also in 1997, and the United Nations Environment Programme (UNEP) guidelines for sustainable tourism; there is also extensive literature on the subject.[20]

FDI can have an impact on the environment through three main avenues: the environmental performance of TNC affiliates, the environmental implications stemming from the effects of FDI on economic growth, and the direct and indirect influence that TNCs and FDI may have on national and global environmental regulations. At the general macroeconomic level, there is no consistent aggregate relationship between FDI and environmental quality: FDI can improve, worsen or have no impact on environmental quality. For example, using a subset of variables from the Environmental Sustainability Index to rank nations, high levels of FDI are found to be associated with poor, good or medium levels of environmental quality (WWF 2003). This seems likely also in tourism: inward FDI can feasibly be associated with a worsening environment (e.g. if the area was pristine with no tourism before, or if the enterprise had a very short time horizon and did not care about its ability to attract tourism in the long term); and it can also be associated with an improved environment (e.g. if a hotel chain follows the latest international environmental standards while domestic hotels do not). In the tourism literature, there has been considerable and increasing attention paid to the environmental impact of tourism (Sinclair 1998, pp. 34-38), but not as much to the environmental impact of FDI. In contrast to other impacts (such as leakages), environmental impacts are typically not attributed to differences in the ownership and control – foreign vs. domestic – of tourism facilities in host countries.

Indeed, environmental problems have occurred to various degrees in many destinations, irrespective of how much they rely on FDI per se. Key factors determining the extent of these problems include the type of tourism, physical planning and management, the capacity and quality of infrastructure, regulations and their monitoring, and the degree of environmental awareness of all stakeholders – governments, populations including local communities and the private sector. The following are some examples:

- Tourism in the Okavango Delta in Botswana initially developed through a relatively high reliance on FDI in the accommodation sector. Environmental problems cited have included the creation of illegal roads by tourist vehicles and noise pollution that disturbs wildlife. Tourist traffic generates an increasing volume of waste, and the proliferation of tourist camps using septic tanks for waste water collection poses a threat to ground water (Mbaiwa 2003, 2005),
- Mauritius, a country with a relatively low reliance on FDI, has not escaped environmental problems. Accommodation has been built close to the beach, against regulations, threatening beach erosion and endangering coral reefs and sea grasses. Hotels operate sewage treatment plants, but there is no municipal recycling of waste. The “greening” of hotels is slow compared to Jamaica and other Caribbean islands (Christie 2003, annex 4, pp. 35-36).
- A study on the east coast of Zanzibar found that rapid tourism development had put pressure on freshwater resources leading to symptoms of overuse (Gössling 2001). It noted that if water management was not improved, overexploitation of water resources might cause the lowering of the groundwater table, land subsidence, deteriorating water quality and saltwater intrusion, making tourism unsustainable and adversely affecting the living conditions of the local people. The study did not distinguish these effects in terms of the nationality of hotel owners, but the larger hotels and guest houses that consume much more water per tourist tend to be foreign, and not local.

The UNCTAD case studies did not attempt to replicate the specialized environmental research; instead hotel managers were asked a few simple questions about their environmental strategies. For example, hotels and enterprises were asked whether they had an ISO14000 certificate. (The International Organization for Standardization offers advice on how firms can minimize their negative effects on the environment (e.g. on water and air quality) and how they can comply with environmental laws and regulations.) They were also asked about membership of the private sector initiative, Green Globe, established in 1994 by the World Travel and Tourism Council. These two environmental standards are the principal means of ensuring that hotels introduce environmental systems into their operations. Finally, interviewees were asked a more open question about the hotel's environmental practices in general.

Most key transnational hotel chains are members of at least one of these two industry standard setting initiatives, and the UNCTAD country studies confirmed that, by and large, TNC hotels in developing-country contexts were more likely than locally owned ones to be aware of and follow the latest international guidelines or principles (UNCTAD 2007a). However the differences were not particularly marked for hotels within the same price and quality bracket. A more specialized study would be needed to isolate these effects in a more quantitative fashion.

7. Balance-of-payments effects

The overall effect of tourism-related TNCs on a developing country's balance of payments will depend on the relative strengths and magnitudes of all of the diverse impact indicators described in the various sections above. Positive effects on the balance of payments will result from the boost to export revenues associated with tourist arrivals, the sale of goods and services (e.g. accommodation, food and cultural services and haircuts), reinvestment of profits into new tourism activities, revenues earned from the sale of passenger tickets on a national airline, and the entry of equity capital associated with FDI. Negative effects will come from imports of tourism-related goods and services (e.g. food, construction materials and tourism vehicles), the repayment of loans borrowed from international banks or investors, and the repatriation of profits and expatriate salaries. The net balance-of-payments effect is therefore a combination of these positive and negative effects related to tourism arrival numbers, the frequency and depth of the linkages created through procurement, employment and supply-chain effects, the degree to which leakages occur, and a country's macroeconomic policies and general exchange rate level and stability.

This study does not attempt to calculate the net balance-of-payments impact of tourism FDI for each country examined, not least because – as described at the start of this chapter – this will largely depend on each country's absorptive and productive capacity, the nature of its tourism industry, and the strategies of its enterprises, domestic as well as foreign. The case studies did, however, find evidence suggesting that some perceptions of the impact of tourism FDI upon leakages may be overstated; for example, there was generally less use of expatriate employees than had been assumed (moreover, domestic hotels were also found to employ expatriates). The second main negative impact on the balance of payments comes from the importation of goods used as inputs for hotels, including construction materials and foods and beverages. Again, the case studies found evidence that foreign hotels and domestic hotels in the same quality bracket did not differ markedly in terms of their corporate strategies with respect to procurement, although to the extent that foreign hotels are larger and have a greater absolute value of procurements, the balance-of-payments effects would also be relatively larger.

C. Conclusion

A summary of the initial hypotheses regarding the expected impacts of tourism-related FDI, as well as the evidence gathered through the UNCTAD survey and field interviews, is given in table III.9 below. Since the potential costs and benefits of such FDI are numerous, complex and nuanced, it is not possible to declare that it will always have either a net positive or negative impact. For example, as the table illustrates, TNCs can help put developing countries on the tourism map, but at the same time they can perpetuate a country's poor image as a mass-market destination. Similarly, TNCs might introduce new knowledge and skills that can help diversify a country's economy, but – in tourism at least – should not necessarily be seen as major contributors of investment capital. The case of Botswana's Okavango delta (box III.9) is illustrative of the balance which must be struck in terms of positive and negative impacts when utilizing tourism-related FDI as part of a development strategy.

Table III.9. Broad summary of impacts based on interviews and country case studies

Expectation or perception (negative and positive)	The Outcome Summary of evidence and experiences
1. Impact on consumer demand	
TNCs swamp local investment by crowding out the market.	This did not appear to be evident, as the tourism value chain offers opportunities for many different niche products and markets. In many cases TNCs and local enterprises, especially SMEs, operate at different levels of the market.
TNCs help put destinations on the map.	They have had a strong impact on new destinations, and have been important historically in tourism countries or locations that are now mature. This role appears to diminish as destinations mature (e.g. Kenya, Morocco and Tunisia).
Foreign brand names enhance the local image.	Notable in business tourism in all countries studied. TNCs lead new forms of small-scale or ecotourism in new destinations (Bhutan, Sri Lanka, United Republic of Tanzania), but some TNCs have also perpetuated a country's poor image in mass-market destinations (e.g. Tunisia and the Dominican Republic).
TNCs bring stability and confidence.	It appears that TNCs have been more robust than many local firms during downturns (e.g. in Kenya and the United Republic of Tanzania). Noted brand names help bring confidence in conflict settings.
TNCs can be fickle, leaving the market abruptly or when local conditions deteriorate.	There are examples when foreign hotels have quit locations quickly (e.g. Tunisia) but these have tended to be independent hotels rather than TNC hotels. More generally, TNC hotels can have the "deeper pockets" needed to sit out difficult periods.
2. Impact on capital formation	
TNCs dominate the market.	TNCs' share in total accommodation can be high in emerging markets, but domestic investors tend to dominate in terms of room numbers, if not in the 5-star segment, as markets mature.
Foreign skills help diversify the product.	Club Med established the club concept in many new destinations. TNCs have boosted convention-based tourism even in mature markets (e.g. Tunisia). Chain hotels can diversify tourist routes through the creation of circuits (Kenya, Uganda and the United Republic of Tanzania, and East Africa as a region.) In more mature markets, local firms lead diversification (e.g. local owners have introduced new and innovative products in Tunisia and Kenya)
Foreign hotels help raise standards.	Yes, in all countries. TNCs introduce new systems of accounting, procedures and management. Some TNCs perpetuate low standards (mass SSS-related tourism). Tensions between owners and managers can undermine quality.

TNCs will not help to build infrastructure.	Generally, TNC investment in infrastructure or tourism services with a public-good aspect is rare and this is usually considered the role of the government. Exceptions include some airlines, airports and railways, although generally this is rare; and there can be a gap between host and TNC expectations, with hosts often expecting more than TNCs are prepared to deliver.
FDI brings new capital and helps to unlock capital constraints.	This can be critical in new markets and LDCs, but it is less important in mature destinations where domestic resources are available. When both foreign and local investors have been eligible for government-subsidized loans, local investors have been crowded out (e.g. in Tunisia)
TNCs will not bring capital, as they are only managers or franchisers.	In most cases, TNCs will not bring equity to a location, but the non-equity package is still valuable.

3. Implications for human resources, including knowledge and skills formation	
TNCs are significant sources of employment generation.	TNCs generate a large proportion of jobs in the sector; and in most cases they generate relatively more jobs than local hotels. In some remote locations they may be the only source of formal employment.
TNCs pay low wages and exploit workers.	This does not appear to be the case although more research is needed.
TNCs pay higher wages and are better employers.	TNCs appear to offer higher wages, but more research is needed. Almost all TNC hotels typically offer pension and social insurance packages. Top local hotels also offer these packages, but local hotels in the low-price ranges appear unlikely to do so. The distinction between local and TNC hotels is most marked in new locations; it is less evident in more mature destinations, and in countries with a strong tradition of public investment in training (e.g. Kenya).
4. Impact on procurement linkages	
TNCs import more than local hotels.	Generally, TNCs' approach is similar to that of local hotels, although on a larger scale. Differences between hotels seem to be more a matter of price and market segment than ownership per se.
TNCs have fewer linkages with local enterprises than local hotels.	This is not the case, and in some examples TNCs make a greater effort to link up with local suppliers than do local hotels.
5. Impact on technology	
TNCs use more advanced management and financial systems.	There appear to be marked differences in training and management techniques between local and TNC hotels, even in mature destinations. Multi-locational training opportunities in TNCs can offer employees a global career. TNCs may also have some technological innovations.
TNCs create technology spillovers to local firms.	This is harder to quantify, although there are some examples of demonstration effects, where local hotels pick up new ideas and methods from TNC hotels, or where staff move to local hotels and take that knowledge with them. These effects are more evident in the countries that are newer to tourism. (Tunisian and Kenyan local hotels are as likely to innovate or set standards as foreign ones.)
6. Impact on the environment	
TNCs damage the environment more than domestic firms.	Environmental sensitivity is needed for all forms of tourism, foreign or domestic. TNC hotels generally appear more aware of new global environmental standards and seem to be introducing environmentally friendly systems (e.g. sewage plants). On the other hand, they are also larger and tend to consume more resources, such as water or energy, than local hotels.
7. Corporate and competitiveness effects	
TNCs crowd out local hotels.	This does not seem to be the case. Rather, foreign and local hotels complement each other, providing different kinds of services in some locations. In countries where they provide similar sorts of services, there was little discussion about crowding out or other impacts.

Hotel occupancy is higher in foreign hotels.	Generally yes, TNC hotel occupancy rates can be at least 5-20 per cent higher or more. However, it varies: in more mature locations it can be lower where local hotels offer innovative or high profile services (e.g. Tunisia, Kenya).
Profitability is higher in foreign hotels.	True in new markets (e.g. Bhutan, United Republic of Tanzania), but not evident in mature markets. Profitability also varies across ownership, with some domestic hotels doing well and some foreign ones not. Tour operator-linked hotels may maximize profits at the corporate level and not at the hotel level.
8. Impact on balance of payments	
TNCs reduce the revenues that arrive or stay in country.	Revenues would not arrive in the first place, in some cases, without prior investment by TNCs. On the other hand, small local hotels need to find ways of establishing or strengthening their links with international tour operators, to ensure that they capture a larger share of the potential tourism value chain.
TNCs also lead to increased imports and high levels of repatriation of profits or expatriate salaries.	Some imports may be the inevitable cost of conducting tourism. The level of expatriates employed by TNCs is lower than expected, and repatriation of profits is tempered by reinvestment. The more TNC hotels can source inputs of the required quality and regularity of delivery locally, the more they will do so and the less they will import.
TNCs boost tourist arrivals and foreign exchange earnings.	Striking effect in newer locations, such as the Dominican Republic.
9. Summing up: Impact on human and economic development.	
FDI and TNCs have the potential to make a useful contribution to the tourism economy in developing countries. They can provide access to the tangible and intangible assets needed to help developing countries become players in the global tourism market. However 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.	

Source: UNCTAD.

Box III.10. Botswana: the plus and minus of niche tourism in the Okavango Delta

Botswana has successfully developed tourism, including to its greatest attraction, the Okavango Delta, by promoting extensive FDI in hotel accommodation and other services.

It is the only country to have graduated from the group of LDCs to become a middle-income economy, primarily as a result of its wise exploitation of its main resource, diamonds. The tourism sector was promoted in an effort to reduce its overdependence on diamonds, and by 2000, tourism had become the second largest industry in Botswana, accounting for some 5 per cent of GDP and employment. It also became the second largest source of government revenue after diamonds.

Most tourism takes place in the Okavango Delta region – an inland wetland with rich wildlife. Tourism activities include game viewing (and photography) – by foot, air, car and canoe – bird- watching and safari hunting. The area attracts some 50,000 tourists annually, which is double the level of the second half of the 1990s.

Since the area is limited geographically and is very fragile ecologically, the Government decided to develop high-cost, low-volume tourism using permanent accommodation instead of casual camps. The policy was implemented through high fees for the use of public facilities (e.g. entry fees in nature reserves), targeted marketing and the development of high-quality, high-price accommodation facilities. [a] In addition, in line with traditional government policy, tourism development was opened to FDI. Given the shortage of capital and skills (including entrepreneurial skills) in Botswana (UNCTAD 2003a), there was no domestic alternative to tourism development on such a scale. FDI was responsible for the provision of accommodation and other services (such as banking services in Maun, given that all banks in Botswana are foreign) and has been instrumental in the country's diversification towards tourism, not only in the Okavango Delta but also in other regions, including in Gabarone, the capital of Botswana.[b]

/…

Box III.10. Botswana: the plus and minus of niche tourism in the Okavango Delta (concluded)

As is often the case with international tourism, there are varying assessments and perceptions of the impact of tourism, especially at the regional level. Apart from employment and income-earning opportunities for local communiteis in the accommodation sector, they were also allocated land, permitting community-based tourism initiatives, such as joint ventures with tour operators for hunting and photography. But in general, community-based projects, supported by the Government failed to meet expectations, such as reinvestment of tourism revenues into other, sustainable local tourism projects, because of the lack of skills, entrepreneurship and information, thus limiting local benefits (Mbaiwa 2003, p. 452).[c]

The growth of tourism has resulted in the establishment of tourism-associated businesses, especially in Maun, the point of departure to the Okavango Delta. As a result of tourism, the region has become better connected to the rest of the country: new roads were built, the telecommunication, postal and electricity services were improved and many new services established (e.g. financial services) which have benefited the local population, although more in Maun than in villages in the Delta. However, most products used by tourists, including food, are imported from neighbouring countries and some are brought from other parts of Botswana.

Tourism is a source of local employment, but mainly in low-skilled and low-paying jobs. Only a few local people are employed as professional guides, assistant managers or managers. Expatriates hold most of the skilled jobs. Although the percentage of foreigners in tourism-related employment is small (around 4 per cent in hotels), they account for a much higher share of the wage bill.

Tourism has begun to have some negative environmental impacts, albeit difficult to monitor because of the heavy tourist traffic during the peak months of tourist arrivals. Examples include the creation of illegal roads for tourist vehicles in some sensitive areas and noise pollution from aeroplanes, boats and cars that disturbs wildlife species, nesting birds and fish. The high volume of tourists generates large amounts of waste that is increasingly difficult to cope with, while the proliferation of tourist camps using septic tanks for wastewater collection is likely to increase the potential for ground-water pollution. On the other hand, negative impacts on wetlands have been found to be small (Mbaiwa 2003, pp. 460-463).

The proportion of the population living below the poverty line in the northwest region of Botswana, of which the Okavango Delta is a part, fell from 85 per cent to 24 per cent between 1985 and 1994 – a far better performance than the national rates of 59 per cent in 1985, down to 47 per cent in 1994. But these data are inflated by more prosperous parts of the region, such as Maun, and rural poverty in small remote villages is still widespread (and according to some sources has increased) in spite of the Government's Community-Based Natural Resources Management Programme.[d] According to some sources, the results have been disappointing because of the lack of skills and understanding of the programme, and, consequently, the failure by local people to reinvest income derived from the programme.[e]

In spite of the success of tourism development in economic terms there is considerable dissatisfaction, especially among the local population, leading often to suspicion and mistrust between tour operators and local communities and a perception of racism (ibid., p. 459). "Interviews with the local people …. indicate that there is a general assumption that that the delta has been taken from them by government and given to foreign tour operators" (ibid., p. 458).

[a] A charge of $400 per night is not uncommon and a one-hour flight over the Delta costs some $220.

[b] Gabarone receives the largest share of foreign visitors into Botswana – 45 per cent in 2000 (Mbaiwa 2003), But its visitors most likely are mainly business persons. All banks and most hotels in Gabarone are foreign-owned (South African). Visitors to the Okavango Delta accounted for 22 per cent of all visitors, but most likely contribute a higher share of receipts, given the nature of tourism in the region.

[c] For example, an elephant sold to a tour operator by local communities for $8,000, is resold to a hunter for $80,000.

[d] Among other reasons, the programme was introduced to promote rural development by the involvement of local communities to reduce resentment and alienation of foreign investors.

[e] Another reason for poverty is a cattle disease in 1995, which resulted in the killing of over 300,000 cattle. (Mbaiwa 2003).

Our overall conclusion is that global hotel chains have the *potential* to offer valuable benefits to developing countries that wish to conduct tourism. In some instances, for example when domestic firms are still fledgling entities, they may be the only source of accommodation and of formal economic activity in tourism. In other instances, where the domestic economy is stronger and more diversified, they can be utilized as useful complements to domestic enterprise, augmenting the skills and products that are offered locally, and, in some cases, exercising a valuable competitive influence on local firms. On the basis of the countries studied, and from the data available in the literature, the impact of TNC hotels relative to local investors appears to diminish as countries gain longer experience in tourism and as domestic entrepreneurs begin to seize the opportunities that tourism can present. Further work is needed to deepen the findings of this chapter and improve the knowledge base upon which developing countries could define their policies towards tourism-related FDI. For example, an emerging theme requiring research and analysis is the issue of corporate social responsibility (box III.10). FDI in tourism will deliver the benefits that are expected only if the appropriate policies are put in place concerning tourism in general. These include environmental policies, land-use laws, transport and education policies, and an enabling environment to help promote domestic entrepreneurs, some of whom will not be aware of the potential opportunities for their goods and services. These policies, as well as those designed by developing countries specifically for tourism-related FDI, are examined in chapter IV.

Box III.11. Corporate social responsibility policies

Corporate social responsibility policies by firms, including TNCs, go beyond conventional economic benefits arising from business activity to include wider objectives. Providing donations to the local community, for example, is probably one of the most widely adopted practices in the tourism industry (Meyer 2006). This particular type of policy is easy to implement, it responds immediately to local needs, it gives a feel-good sentiment to both donors (guests) and the companies that set up the initiative and it is reasonably easy to manage. Donations can include money and discarded hotel goods (e.g. linen, soaps, furniture and food), and the "adoption" of good causes or charities (such as a local school or medical clinic).

In most of the interviews in the UNCTAD country case studies, both domestic hotels and TNCs reported having CSR policies and approaches, and it was rare to find a hotel that did no philanthropic work within its local community. The policies of the TNC hotels were, perhaps unsurprisingly given their larger size and scale, often more formalized and far-ranging in this regard. Some hotels, such as the South African TNC, Conservation Corporation Africa, that operates wildlife lodges, and its Africa Foundation, have built their philanthropic role into their brand image (www.africafoundation.org). Assistance includes donations in the form of financial aid and discarded goods such as books and recyclable goods, support for local schools and medical clinics, and even sharing of electricity or technical skills (see UNCTAD 2007a). This kind of resource-sharing can have a substantial impact on livelihoods and welfare, especially in regions where the TNC is the only formal employer, or in an area of otherwise subsistence agriculture.

However, although the UNCTAD survey elicited some examples of CSR policies, this was not a fundamental objective of the research design. A dedicated, carefully considered methodology – including a conceptual framework – is needed to do the topic justice.

Source: UNCTAD.

Notes

1 For example, see Archer and Fletcher (1990).

2 Sinclair (1998) gives an overview of the literature.

3 Examples by national and regional governments include the Australian Tourism Impact Model (TIM), or the Ontario Tourism Regional Economic Impact Model (TREIM), in addition to the academic references given above.

4 For example, Caves (1996), Dunning (1993) and Moran (1998), and the comprehensive survey of FDI and development covered by UNCTAD (1999a).

5 For a detailed discussion of pathway, see Mirza and Giroud, 2004.

6 The data is transformed into natural logs (ln) to compress the scale and normalize for differences between country size, GDP and population. One hotel translates to a log value on the horizontal axis of 0, while 400 hotels translate to ln 6.00. Thus Algeria's two TNC hotels translate to ln 0.69 and 1,234,000 arrivals translate on the vertical axis to ln 7.12. Brazil (the data point on the far right hand side) had 179 TNC hotels, which translates to ln 5, and 4,793,000 arrivals, which translates to ln 8.08, and so on.

7 National Bureau of Statistics and Tourism Department, Ministry of Natural Resources and Tourism, United Republic of Tanzania.

8 Therefore, many countries have opted for a concentrated and planned resort development rather than dispersed developments throughout the country.

9 See, for example, Tourism Research Australia (2003).

10 Galessio (http://www.pearcedale.com/c&b/peruhistory.htm).

11 National Labour Force Survey (2003, 2004), Royal Government of Bhutan.

12 Mark Twain, *A Tramp Abroad*, first published 1880.

13 Similarly, a survey of tourism in the Philippines found that 32 per cent of workers were estimated to be semi-skilled, 32 per cent skilled and 14 per cent were supervisors (Sinclair 1998, p. 30).

14 Similarly the UNCTC study in 1982 found that the training provided by TNCs was of less significance in the one country (India) were local TNCs competed, internationally as well as domestically, with hotel chains from developed countries.

15 We expected that LDCs would have fewer of all skill sets, but answers were generally not provided in a way that allowed us to break down these responses by country or region

16 A UNCTC report (1982) indicated that this was particularly likely in countries which were geographically and culturally different from the major tourist-generating countries, and within these countries, in cities and beach resort areas. Countries as diverse as Brazil, Fiji, Greece, India, Japan, Kenya, Mexico, the Republic of Korea, Senegal and Thailand had regional advantages which could best be exploited by small or medium-sized locally owned and run hotels.

17 In a review article on tourism and development, only one example of crowding out is cited: in the 1960s and 1970s locals were forced out of business in Tahiti (Sinclair 1998, p. 21).

18 ODI research officers participated in the initial stages of the UNCTAD project, and helped conduct one of the key country studies.

19 At the same time, the ownership advantages of TNCs may persist in the luxury and first-class hotels, as exemplified by mature tourism markets in Europe. TNC hotels there exhibited a substantially higher average level of value-added than locally owned hotels in the years studied by the UNCTC (1982), and they continue to play a role in market segmentation today.

20 Of course, new types of tourism that makes a selling point of their environmental approach have also now emerged, such as ecotourism or sustainable tourism; however, our purpose is to consider the environmental awareness of all tourism operators, not just those with an explicit environmental focus.

Chapter IV

An integrated policy approach towards FDI in tourism

Introduction

This chapter focuses on FDI policy as it relates to tourism in host developing countries. The central message is at one level very simple: tourism-related FDI policy cannot be isolated from the wider policy framework of which it is a part. There is only limited benefit to be gained from attracting global hotel chains if a host country does not have in place the wider policies that are needed to make the most of the opportunities and minimize any costs from this kind of investment. To take full advantage of FDI as a catalyst and a complement to domestic investment, a coherent and integrated policy framework is therefore essential.

Putting this message into practice, however, is less simple. The industry is a cross-cutting one and involves interlinking activity, with a long value chain that includes the provision of services by many providers, private and public. This means that the number and range of policies that need attention are large, far-reaching and diverse. They include, for example, 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. To give a concrete example of just one aspect, the current plans for further tourism development in Brazil depend heavily on doubling the number of international flights. At present, there are 600 incoming flights per week.[1] If the aviation policy is not coherent with the tourism policy, there will be a bottleneck and the goals of the tourism policy will not be achieved (and vice versa).

Secondly, designing policy is only part of the challenge; policies also need to be implemented. This requires adequate human and financial resources to be allocated at the national, regional and local levels. Policies relating to FDI in tourism may even extend, for example, to the budget and to training local law enforcement officers, an area that seems far removed from the topic of tourism-related FDI. Another concrete example is the tourism zones in the Dominican Republic that have emerged without adequate planning, in some cases encouraging "enclave" developments that are isolated from the surrounding communities, and in at least one case violating environmental laws (UNCTAD 2007a). Until the Ministry of the Environment has the capacity to properly enforce most environmental regulations, it will be difficult to ensure that new developments (in other activities as well as in tourism) will respect the national policy. It may also, in the medium to long term, undermine the Dominican Republic's competitiveness as a tourist destination.

Finally, proactive policies may be needed to help local communities gain the skills and resources they need to take advantage of the opportunities that tourism can create. For example, it has been argued that the sharp rise in tourism in Cancun, Mexico, failed to create beneficial links with local agricultural providers in the immediate vicinity because appropriate agricultural policies were not incorporated into the tourism development process. It was believed that, somehow, local farmers would "rise to the occasion" and begin producing for tourism, in the absence of any concrete strategy of integrated development (Torres 2003). Similarly, in most small island economies there has been "theoretical rather than practical help" in assisting local agricultural producers to link into the tourism value chain (Latimer 1985).

While an integrated approach is undoubtedly needed, there is no simple "one-size-fits- all" ideal policy framework, because every country is different, with differences in natural endowments for tourism, created assets, main sources of competition, sources and levels of investment (be it domestic or foreign), geopolitical history or institutions and, most importantly, wider national policy goals and objectives, of which tourism would be one of many potentially competing interests.

Each country therefore needs to link tourism-related FDI policies in a coherent way with the wider policy context, in particular its economic and human development goals. In most countries studied by UNCTAD, this does not yet occur. Generally, even in countries where tourism is a significant employer or source of foreign exchange, UNCTAD found few, if any, examples of an inter-agency tourism policy committee comprising senior representatives from relevant ministries and stakeholders affecting or affected by tourism.[2] Most countries have a relatively "stand-alone" tourism ministry and a number of subordinate tourism-related departments and agencies, although in some countries tourism is combined at the ministerial level with other portfolios such as natural resources or trade. Bhutan stands out, in the UNCTAD country case studies, in having a high-level, inter-ministerial body for policy-making on tourism to encourage coordination between government departments, ministries and the private sector (table IV.1).

This chapter describes some of main policy approaches to tourism-related FDI used in selected developing countries, and notes some important gaps that were identified in the UNCTAD survey and country studies. Part B examines how policies aimed at attracting FDI in tourism have been put in place in most developing countries, and Part C describes some important policy issues for enabling host locations to reap the most benefits from this. Section D sums up and concludes with a short list of policy-related lessons that could be drawn from the case studies, with a particular focus on policies that aim to encourage linkages between TNCs and domestic enterprise. This issue is an entire topic of its own, however, and some best practices that have emerged from a study of developed countries will be covered in more detail in a subsequent publication.

A. Developing-country policies towards tourism-related FDI

The policy stances taken by developing countries with respect to FDI in tourism have converged considerably in recent years, as most countries are now broadly open to foreign participation in tourism activities, in particular with respect to hotels. This represents a sea change from the 1960s and 1970s when many countries were closed to private investment of any kind. Typically this reflected a more general domestic policy stance that favoured nationalization and indigenization with a general distrust of FDI. Today, however, State ownership of tourism resources, in particular accommodation, is the exception, in most cases, occurring only when a country has been unable to attract private sector investment, rather than as a proactive policy stance.[3] Exceptions to this include China (although the private sector is becoming an increasingly significant player), Vietnam and Laos.

The range of possible policy approaches towards tourism-related FDI is summarized in figure 1 below and described later. They vary, from being completely closed, to opening up to FDI, to promoting FDI in a limited way (e.g. through trade fairs and "match-making" events), to attracting foreign investors by means of fiscal and financial incentives. Many newly independent African countries in the 1960s and 1970s adopted a closed policy stance. Today most countries are more or less open to tourism-related FDI, and hence are positioned towards the right hand side of the continuum (figure IV.1). In many cases tourism is being targeted as a priority sector.

Table IV.1. Institutions and policies on tourism and FDI

Country	Institutional framework for tourism	Formal tourism policy	Formal FDI policy
Bhutan	Department of Tourism, under the Ministry of Trade and Industry. Tourism Development Committee, chaired by the Minister of Trade and Industry, comprises senior government officials from other Ministries, the national airline, private sector investors and the Bhutan Tour Operators Association. Tourism school planned for 2007.	Revised Bill scheduled to go before Parliament in mid-2007.	Open to FDI in hard currency since the FDI Act 2002. FDI Rules and Regulations 2005. Act currently under revision.
Dominican Republic	Ministry of Tourism, and Ministry of Environment and Natural Resources.	2001 Law on Promotion of Tourism Development.	***na***
Kenya	Ministry of Tourism and Wildlife. Kenya Tourism Board (KTB), Kenya Tourism Development Corporation (KTDC), and Kenya Wildlife Services (KWS). Utalii tourism training college.	Not yet. National Tourism Policy (2002) still under review.	Foreign Investment Promotion Act 2004; revised in 2006.
United Rep. of Tanzania	The Tourism Division is one of five divisions under the Ministry of Natural Resources and Tourism. Tourism school planned, but not yet in existence.	Tourism Master Plan of 1996 updated and revised in 2002.	1997 Investment Act; Tanzania Investment Centre (TIC); New investment code for Zanzibar; Zanzibar Investment Promotion Agency (ZIPA).
Tunisia	Ministry of Tourism, Office National du Tourisme Tunisien Office du Thermalisme Agence Foncière Touristique Société Promogolf Hammamet Société Promogolf Monastir Société Hôtelière et Touristique du Nord-Ouest Société des Loisirs Touristiques	No specific national tourism plan but tourism is integrated into each 5-year national development plan	Investment Code of 1969; Investment Promotion Agency established; Investment code specifically for tourism (1993).
Sri Lanka	Ministry of Tourism. Sri Lanka Tourist Board, the Ceylon Hotels Corporation and the Sri Lanka Convention Centre.	No specific national tourism plan but several marketing and promotion initiatives such as "Bounce Back Sri Lanka" Jan 2005	Board of Investment (BOI) law No 4 of 1978 and amendments in 1980, 1983, 1992

Source: UNCTAD, 2007a.

1. Degree of openness to tourism-related FDI

Having once been highly restricted, tourism now has fewer FDI restrictions in developing countries than many other economic activities. Recent research on 50 developing countries in Asia, Africa, Europe and Latin America found that the average level of restrictiveness to FDI in tourism was extremely low (UNCTAD 2006b). Based on an index that ranged from 0 (no restrictions) to 1 (de facto or actual prohibition of FDI), tourism ranked 0.21 on average.[4] The study found that there were more restrictions on FDI in, for example, electricity services, which had an average index value of 0.59, communications, with a value of 0.44, and transport services, with a value of 0.35 (figure IV.2).

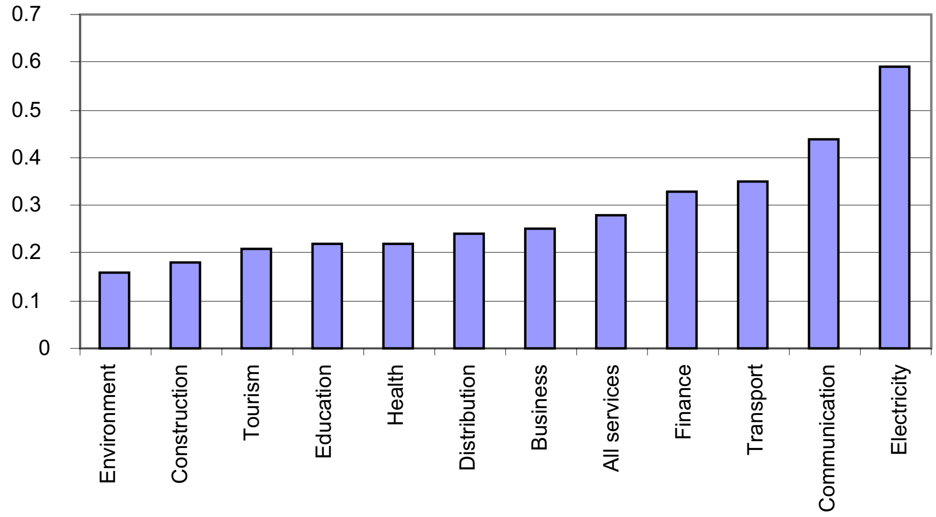
Within tourism itself, hotels and restaurants were more open to FDI than travel agencies and tour operations, with rankings of 0.21 and 0.24 respectively, although the difference between these two is small. The high degree of openness is unrelated to the fact that the countries are developing, rather than developed: a similar picture was observed in OECD countries, where, using a similar methodology, tourism and construction services were again found to be the most open of all the service industries (Golub 2003). On the other hand, transport is still quite highly restricted in developing countries, in particular those that have State-owned airlines. This index is of course subject to the usual criticisms concerning the items included in the index, the relative weights and so on, but the approach taken attempts to go beyond simply measuring a country's commitments to the WTO General Agreement on Trade in Services (GATS). For example, it takes account of unilateral steps within the country that have the effect of liberalizing the sectors, but which are not included in GATS (for more on the methodology, see UNCTAD 2006b). Some countries are more open in practice to FDI in tourism than is indicated in their GATS commitments.[5] Examining the use of reservations in international investment agreements, also shows that their incidence in tourism is low: 1-2 per cent by sector in both developed and developing countries (UNCTAD 2006c).[6] The overall point is that tourism is significantly less restricted than other services when measured using the same methodology.

Figure IV.1. Policy stances towards tourism-related FDI

Closed	**Neutral**	**Open**	**Encouraging**
Nationalization →	**Privatization** →		**Promotion**
FDI is prohibited. State-owned and managed hotels. Domestic, private-owned hotels.	FDI is allowed. May include some restrictions (e.g. performance requirements). Sale of State-owned hotels to private investors, including foreigners. TNCs can manage, lease or own hotels.	Open and welcoming to FDI. Establish investment promotion centres. Joint ventures between domestic and foreign investors. TNCs in build-and- operate programmes. TNCs can manage, lease or own hotels. Trade fairs for tourism and investment. Training schemes for tourism employees.	Incentives to attract FDI, such as • Grants or loans at preferential rates; • Tariff exemptions; • Tax holidays. Public-private partnerships: the government finances infrastructure and underwrites investment. TNCs in build, own, operate programmes. TNCs can buy land. Regional trade and tourism initiatives.

Source: UNCTAD, 2007a.

Figure IV.2. Distribution of FDI in service activities in developing countries



Source: UNCTAD (2006b).

The finding that FDI in tourism is relatively unrestricted compared to other activities is supported by evidence from individual developing countries. In India, for example, there is now no limit on FDI in tourism activities such as hotels and airports, and 100 per cent foreign equity is allowed. However, restrictions remain in other services such as insurance (up to a maximum of 26 per cent of foreign equity), and no FDI is allowed at all in legal services or railways. Similarly, in some UNCTAD country case studies (the Dominican Republic, Kenya, Morocco and Tunisia) there is no upper limit to the levels of foreign equity allowed. Other countries have a relatively open stance, but with some qualifications with respect to the size and scale of operations. For example, in Kenya, while there is no limit to the level of foreign equity allowed in private enterprises, companies that are listed on the stock exchange must have at least 30 per cent domestic investment. In Mauritius, 100 per cent foreign ownership is allowed in new hotels of more than 100 rooms, but only 49 per cent equity is allowed in smaller hotels. In Bhutan, there is an upper ceiling of 70 per cent foreign ownership, and hotels must be small in terms of room numbers (table IV.2).

2. Treatment of foreign compared to national investors

In most countries, foreign investors are not explicitly treated differently from local investors. However, they can sometimes be treated differently by default, especially when regulatory barriers and investment promotion incentives are defined in terms of size (by employment, monetary value, or, in the case of hotels, by number of rooms). As an example, many incentives apply only to hotels of more than a certain number of rooms, the high overall capital costs of which may be beyond the reach of domestic investors alone. On the other hand, in some cases, local investors may be favoured over foreign investors. The Tanzania Investment Act 1997, for instance, treats foreign investors on the mainland on a par with domestic investors and the provisions of the Act apply to all of them without distinction. However, an important qualification is that the benefits and protection provided by the Act require different minimum levels of

Table IV.2. Policy stances towards tourism-related FDI in country case studies

Country	Foreign investment requirements	Incentives	Restricted categories
Bhutan	FDI Committee (comprising various ministry heads) approves proposals. Minimum entry of $1m in manufacturing or $500,000 in services, including tourism. Foreign investor can hold up to 70 per cent equity. Foreign exchange controls, but no restrictions on transfer of profits or dividends. Five expatriate posts are guaranteed for investments over $5m; but in practice, this is open.	None.	No FDI permitted in tour operations. Hotels limited to a maximum capacity of 50 rooms in urban areas and 15 rooms in rural areas.
Dominican Republic	Foreign equity participation of up to 49 per cent of capital only. All foreign companies must recruit at least 80 per cent of Dominican employees. In special circumstances, more expatriates may be authorized when it is difficult or impossible to replace them with Dominicans, but the company is required to train Dominican staff. The annual profits generated by foreign capital that has been registered with the central bank may be remitted abroad up to an amount equivalent to 25 per cent of the registered capital.	***n.a***	***n.a***
Kenya	Minimum investment of $500,000 amended to $100,000 in 2006. Foreign ownership of 100 per cent is permitted. The Kenya Investment Centre must deem the project as being in Kenya's interest.	The investment allowance enables recovery of investment costs before the enterprise is liable for tax. This can take years. Construction materials can be imported duty free. No withholding tax, no stamp duties and a 10-year corporate tax holiday.	None
United Rep. of Tanzania	Minimum investment of $4 million for foreign hotels.	Tourism projects are exempt from import duties and value added tax is deferred during construction. Corporate tax is 30 per cent and losses may be carried forward five years.	Car hire and travel agencies are limited to national firms in the mainland; restricted activities in Zanzibar also include ground transport and small-scale accommodation.
Tunisia	Foreign investment is allowed up to 100 per cent, and since 2005 foreigners can own land for commercial purposes (e.g. hotels).	Wide range of fiscal incentives, including: low or reduced tax on items not produced in Tunisia, suspended sales tax and reduced company tax.	
Sri Lanka	Foreign investment allowed up to 40 per cent of total equity value.	***n.a***	***n.a***

Source: UNCTAD, 2007a and b.

investment: $300,000 for foreign investors compared $100,000 for domestic investors (UNCTAD 2007a and b).[7]

Most countries have concluded international investment agreements with foreign investors to provide legal protection against certain political risks such as discrimination or nationalization without proper compensation, or transfer restrictions related to the repatriation of capital and profits. Such guarantees may also be included in the domestic laws of host countries.

3. Policy issues related to international commitments

The cross-border provision of services through a commercial presence is one of the four modes of supply that are covered by the GATS. FDI is one means of establishing a commercial presence. As noted above, tourism is one of the more open sectors, in terms of commitments to the GATS.[8] Table 10 in the annex presents the existing tourism-related GATS commitments of the case study countries, as well as those for a number of reference countries. One of the first observations from the table is that the overall level of tourism-related commitments is quite low, and varies widely between countries. This reflects the fact that, contrary to some widely held perceptions, there are no GATS requirements as to the sectors in which WTO members must make commitments, nor is there a requirement for full liberalization in any service sector where commitments have been made.[9] Consequently, partial commitments are the norm in WTO members' GATS schedules, for example granting market access to a limited number of foreign suppliers or restricting the maximum level of FDI permitted to foreign investors. Table 11 in annex B presents an FDI overview of GATS tourism-related service commitments; it clearly shows the extent to which countries have been able to maintain such restrictions.

However, UNCTAD research suggests that in practice, countries can be more open than their GATS commitments with respect to tourism suggest. GATS commitments are a legally binding international obligation to ensure a *minimum* level of access, as indicated in the GATS schedule of the country concerned. WTO members are free to grant better access than is provided for in their GATS schedule, provided they do not discriminate between the recipients of that improved access. In Indonesia, for example, in practice there has been more openness to FDI than the minimum specified in the commitments (as discussed in Section A above).

The significant gap between binding GATS commitments and the actual legal regime usually occurs because nearly all WTO members wish to retain a degree of flexibility on liberalization measures in case of a perceived need to alter these. This desire for flexibility has to be balanced against the equally strong desire of investors, both foreign and domestic, for legal stability and predictability.

Another reason for the generally low level of GATS tourism-related commitments may be that the tourism industry is only marginally involved in trade negotiations. Tourism-related industries are primarily composed of SMEs, often with competing economic interests, as well as a small number of larger firms. Consequently, policy coordination becomes a formidable task, which may help to explain why the expectations and potentials associated with tourism are often not integrated into negotiating strategies at the WTO.

In the Doha Round of WTO negotiations, of which negotiations on services are a major part, tourism plays a rather minor and somewhat ambiguous role.[10] On the one hand, tourism is one of the leading activities in terms of the conditional offers of WTO members to further liberalize their trade in services. On the other hand, the further liberalization of tourism-related services offered to date consists primarily of marginal improvements to existing narrowly defined commitments (i.e. sub-categories 9.A, B, C and D in table 12 of the annex), rather than guaranteeing access to new tourism-related services or subsectors.

The coverage of tourism and tourism-related FDI in GATS is likely to remain limited. Unlike most major services, tourism has not been the subject of a group request for further liberalization,[11] nor does it yet have an informal "Friends Group" of WTO members to voice tourism-related concerns and support the negotiating objectives for this industry, although there are some signs that this may emerge in the near future.[12]

It should be noted that liberalization commitments affecting tourism-related FDI might also be covered in bilateral or regional free trade agreements. Prominent examples include the North American Free Trade Agreement (NAFTA) and the ASEAN Framework Agreement on Services of the Association of Southeast Asian Nations.

4. *Key policies and measures to attract FDI*

a. *Measures to promote FDI inflows*

Measures designed to promote FDI in tourism includes government support for trade fairs, maintaining internet sites that promote a country as a tourism and investment destination, and attending or organizing promotional events. Most countries do at least some of these, depending on the level of funding they can afford to commit; LDCs have very little to spend compared to some developed countries or some higher-income developing countries.

Promotional activities can be wide-ranging. For example, foreign and domestic investors may not necessarily need active persuasion to enter a new location, but they may lack information about economic and other conditions, such as the country's national strengths. However, the broader interpretation is that successful investment promotion goes beyond just "selling" the existing advantages of a country, to include activities resulting in the creation of new advantages (UNCTAD, 2004).[13] In tourism, this is an extremely broad remit.

This is an important area of research in which UNCTAD and others are currently engaged. The findings of UNCTAD with respect to best practices in promoting tourism-related FDI from developed countries will be reported separately (2007b). However, on the basis of the information currently available, it appears that a large number of countries are active in this area. In a survey conducted by UNCTAD (2004), out of 61 national investment promotion agencies (IPAs) that responded fully, 57% were actively targeting investors in tourism, including in hotels and restaurants (table IV.3). This was the second most frequently targeted service activity after computer (IT) and related services.

A recent second survey of Investment Promotion Agencies (UNCTAD, 2006a) revealed an interesting new finding with respect to South-South investment, in that tourism was the single most important economic activity for which IPAs targeted developing-country sources of FDI (figure IV.3). This indicates not only the growing importance of developing-country TNCs as described in chapter II, but also the general trend of increased opening up to FDI (figure IV.1, column 4).

Table IV.3. Service activities targeted by IPAs, 2004
(Percentage)

Service	All countries	Developed countries	Central and Eastern Europe	Developing countries	Africa	Latin America	Asia and the Pacific
Computer and related services	72	100	80	65	58	62	82
Hotels and restaurants	57	13	50	67	63	77	64
Tourism	57	25	30	70	79	77	45
Transport	39	25	40	42	42	23	64
Energy	34	25	20	40	58	23	27
Health and social services	30	25	-	37	47	15	45
Other business services	28	38	60	19	11	15	36
Banking	26	25	20	28	42	8	27
Construction	26	-	10	35	42	31	27
Education	26	25	10	30	42	8	36
Real estate	20	13	30	19	26	15	9
Water	18	-	10	23	32	15	18
Wholesale trade	16	13	20	16	16	-	36
Insurance	15	13	-	19	26	8	18
Retail trade	13	-	10	16	16	8	27
Others	30	25	20	33	26	38	36
No. of responses	61	8	10	43	19	13	11

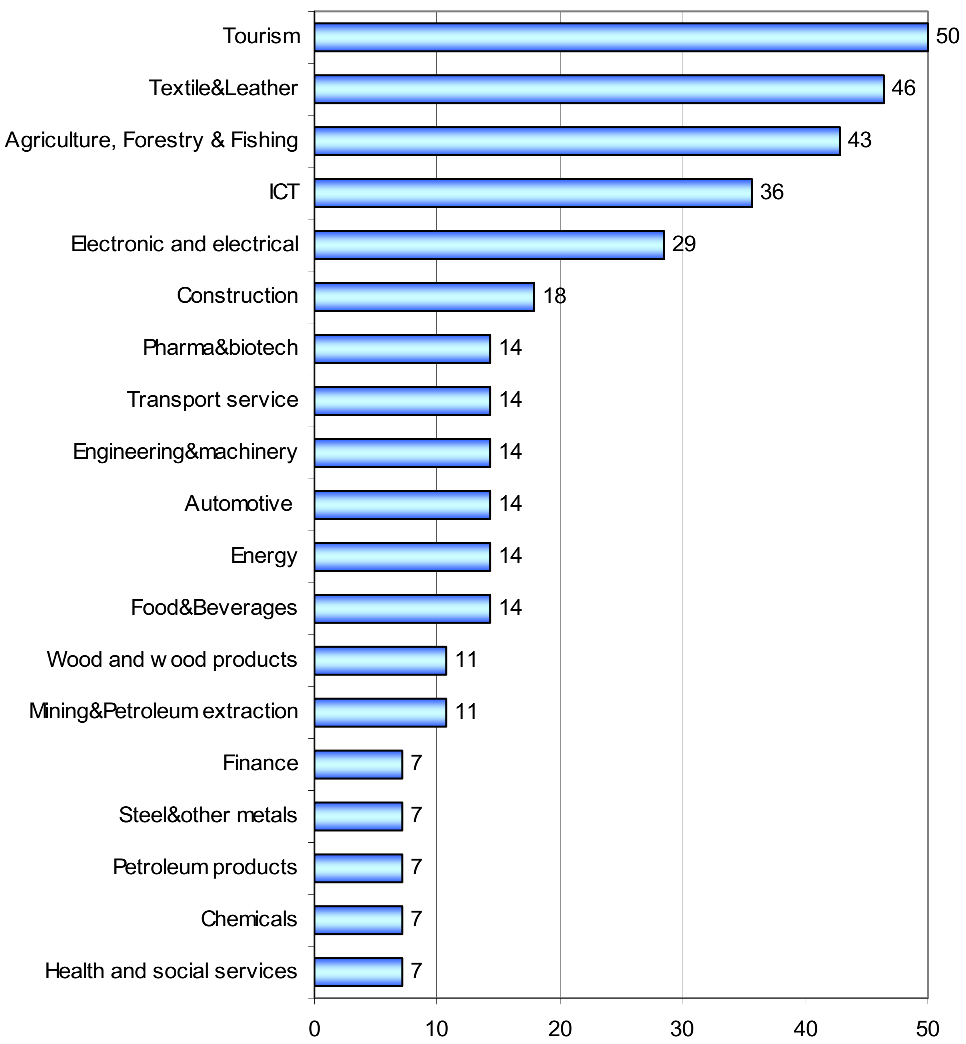
Source: UNCTAD survey of IPAs, conducted January–April 2004.

As shown in figure IV.1, in some developing countries privatization is the first step towards becoming more open to FDI. Privatization is not explicitly an FDI issue, but it tends to be one de facto when the capital values of assets that are being sold by governments are large, and therefore beyond the reach of most domestic investors. Moreover governments can use privatization as a promotional tool to specifically target foreign investors. In many developing and transition economies, the State owned large and diverse tourism assets from the 1960s to the 1980s, as part of a more general policy of nationalization. Although the role of the State declined in tourism as in other sectors, in some instances privatization of hotels was slower than it was in other sectors. For example, in the United Republic of Tanzania, although the Presidential Parastatal Sector Reform Commission (PSRC) was created in 1972 to implement the country's divestments, privatization of hotels did not take off until the late 1990s, starting with the State's withdrawal from the New Africa Hotel in Dar es-Salaam in three gradual stages. By 2006, only three hotels remained in public hands. As in most countries generally, very little State ownership remains in that country today.

b. Incentives to attract FDI inflows

In addition to measures, countries can also use incentives to attract FDI. These includes *financial incentives*, involving direct funding of tourism projects by a government through the granting of preferential loans or subsidies, and *fiscal incentives*, which are tax-related. Fiscal incentives, used more widely in tourism than financial ones, can be of six main types: accelerated depreciation allowances, tax allowances, tax credits, tax holidays, income tax allowances and import tariff exemptions (UNCTAD 2005). From the perspective of the corporation, financial incentives are primarily directed at reducing start-up costs – which for hotels can be high – and fiscal incentives are aimed more at keeping down operating costs. There is little information in the literature about the use of these mechanisms in tourism, but a wide range of measures can be used to encourage tourism-related investment in greenfield projects or substantial renovation projects. For example, local or national governments may provide investors with grants or loans at preferential rates for opening up a new hotel or resort (sometimes linked to the number of hotel beds provided), or other forms of subsidization, particularly for start-up years (in an extension of the infant industry argument). These have been used extensively by developed and developing countries (see tables IV.4 and IV.5, and box IV.1 for a case study example.)

Figure IV.3. Tourism, the most targeted sector by IPAs promoting FDI from developing and transition economies
(Per cent)



Source: UNCTAD, 2006a.

More generally, local authorities may help indirectly to promote greenfield projects by providing the basic infrastructure for a new tourism resort at no direct cost to the developer (for example, a local or national government may invest in providing water, electricity and sewage treatment facilities). Governments have also purchased or set aside land for hotels or resort facilities, which can then be made available to hotel investors to buy or lease at concessional rates. Even identifying and setting aside land for tourism – either for lease or purchase – is a promotional activity that can help to reduce capital costs for investors, if, for example, the land is held in communal title, or acquisition by the private sector is difficult. Many countries also offer investors exemptions on tariffs for imports of essential inputs into hotel and resort facilities, which may be particularly important during the construction phase of a new project or in renovating a historical or existing building or location. As noted above, many of these policies apply to local as well as international investors: the distinction between the two is often more about size and scale than about nationality per se.

Table IV.4. Subsidies used to attract (or retain) investment in services
(Number of WTO member countries)*

Service	Tax incentives	Direct grants	Preferential credit & guarantees	Equity	Duty-free inputs & free zones	Other & unspecified measures	Number of WTO members (counting the EU as one)
Tourism	41(2)	12(4)	15(2)	2(-)	30(-)	11(1)	63(6)
Banking	13(2)	4(1)	6(1)	9(1)	10(-)	6(-)	33(4)
Maritime transport	10(4)	6(1)	3(1)	-	9(-)	6(3)	25(4)
Transport, general or unspecified	9(1)	8(4)	2(-)	-	5(-)	7(-)	24(4)
Telecoms	3(-)	10(3)	1(-)	-	5(-)	4(-)	18(3)
Other financial services	9(3)	1(1)	3(1)	2(-)	9(-)	-	17(2)
Software, ICT and information processing	9(2)	3(2)	1(-)	-	8(-)	2(-)	15(2)
Construction	11(1)	3(2)	2(-)	-	4(-)	-	15(2)
Air transport	7(-)	2(2)	1(-)	1(-)	4(-)	5(4)	14(4)
Rail transport	4(1)	6(1)	-	-	-	6(1)	13(3)
Energy	7(1)	2(1)	-	-	1(-)	7(1)	14(2)
Recreation, culture & sports	7(1)	4(3)	1(-)	-	5(1)	-	12(4)
Audiovisual services	5(1)	6(4)	-	-	3(-)	-	11(4)
Wholesale & retail trade, distribution	6(1)	1(1)	1(-)	-	6(-)	-	11(1)
Real estate	3(3)	1(1)	1(-)	-	1(-)	-	5(3)
Other & unspecified sectors	11(1)	4(2)	5(1)	1(1)	12(-)	6(-)	28(3)
No. of subsidy programmes	165(24)	74(33)	44(6)	15(2)	112(1)	60(10)	

Source: UNCTAD, based on WTO 2004.
Note: The table includes subsidy programmes that are envisaged.
*Figures in parenthesis indicate the number of developed countries.

In addition, to the start-up costs described above, a number of countries have put in place policies to reduce *operational costs,* as many large-scale hotels can take several years to become profitable. For example, they may grant tax holidays, whereby investors are exempted from paying corporate taxes on profits for a specified number of years (usually between five and ten years), or depreciation allowances on assets.

Other policies that are specifically aimed at improving local production capacity include subsidies or grants to help pay the costs of training programmes for local employees. These policies too can help local owners as well as foreign ones. Further research is needed to compare how the particular fiscal and financial incentives used in tourism differ from those provided in other sectors, and by developed countries. A broad comparison of the use of incentives in 63 WTO member countries is shown in table IV.4 (WTO 2004). According to the table, subsidies have been used in the whole range of service activities, and are commonly used in tourism.[14] In terms of the types of measures used in tourism, tax incentives have been used more frequently than direct grants (unlike the telecoms sector), and waiving duty on inputs seem to have been particularly frequent.

Of the 63 economies in the WTO study (table IV.5) it appears that developed countries tend to use direct grants and preferential credit or loan guarantees more often, and developing countries are more likely to offer tax incentives and duty-free privileges. Some developing countries use a wide range of measures. For example, South Africa offers preferential credit and loan guarantees through its Industrial Development Corporation (IDC) and Department of Trade and Industry (DITE), and also contributes equity, and the United Republic of Tanzania offers tax incentives and duty-free privileges.

c. Regional cooperation

FDI can be promoted at the regional level by countries adopting a coordinated approach to investment regulation and promotion. In tourism, one of the recent examples of this includes an emerging agreement between countries in the Silk Road Initiative, involving China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. Regional cooperation can include: joint tourism marketing activities, harmonizing trade and investment policies so as to encourage intraregional imports and exports by reducing transactions costs, improving information, joint management of tourist assets (e.g. adjoining wildlife reserves, mountain ranges, lakes and waterfalls), and provisions enabling tourists to move freely between countries.

Similarly, discussions are under way in the East African Community to promote the area as a regional destination. This will require an appropriate integration of tourism and investment policies including, for example, policies with respect to immigration, tourist visas[15] and customs duties; but an agreement between the countries may also extend to harmonizing investment policies. It is interesting to note that TNCs have often created regional networks de facto through their hotels and lodges – and East Africa is a good example of this. Visitors to the Serena Hotel in Kenya's capital city, Nairobi, often travel on a regional circuit based on the chain's seven lodges in Kenya, eight hotels and lodges in the United Republic of Tanzania, and a hotel in Uganda (UNCTAD 2007a). Such a hotel-based circuit, in order to take advantage of the different attractions and experiences in each country, is prima facie evidence of the potential benefit of encouraging tourism on a regional level rather than just a country level. However, a fuller cost-benefit analysis of such arrangements is needed, including intra-country distribution effects.

d. FDI and public-private partnerships

A public-private partnership is a particular kind of approach that is frequently used to open up a new region, or even a country, to tourism where there has been little of it. Cluster developments combining TNCs and smaller domestic tourism enterprises are increasingly being started from scratch, with local or regional governments taking an initial coordinating and facilitating role. In Morocco, as described in box IV.1, the Government has earmarked a number of specific sites for greenfield tourism development using a public-private partnership approach, where the Government identifies the potential location, finances the provision of basic infrastructure, especially that with public-good aspects that would not readily be provided by the market alone (for example, transport routes, sewage and waste-water treatment), and begins the process of match-making with possible large investors, for the most part TNCs.

Table IV.5. Forms of financial assistance in tourism services

Direct grants	Preferential credit &guarantees	Equity	Tax incentives	Duty-free inputs &free zones	Other &unspecified measures	Number of WTO members[2]
Botswana	Canada	South Africa	Nigeria[1]	Argentina	Guinea[1]	63
Canada	Nigeria[1]	Burundi	Argentina	Egypt	Lesotho	
Israel	Iceland		Egypt	India	Singapore	
Switzerland	India		India	Jamaica	Brunei Darussalam	
Liechtenstein	Jamaica		Israel	Kenya	Mauritius	
Costa Rica	South Africa		Jamaica	Nicaragua	Guatemala	
Czech	Trinidad & Tobago		Nicaragua	Peru	Slovenia	
Slovakia	Turkey		Philippines	Solomon Islands	Barbados	
Australia	Grenada		Solomon Islands	United Rep. of Tanzania	New Zealand	
Lesotho	Mauritius		Trinidad & Tobago	Trinidad & Tobago	Indonesia	
Morocco	Slovakia		United Rep. of Tanzania	Turkey	Gambia	
Turkey	Barbados		Uruguay	Uruguay		
	Uganda		Madagascar	Mozambique		
	Botswana		Ghana	Ghana		
	Morocco		Macao (China)	Macao (China)		
			Costa Rica	Dominica		
			Dominica	Grenada		
			Grenada	Saint Kitts & Nevis		
			Saint Kitts & Nevis	Saint Lucia		
			Saint Lucia	Saint Vincent & the Grenadines		
			Saint Vincent & the Grenadines	Malawi		
			Gabon	Haiti		
			Cameroon	Barbados		
			Mauritius	Burundi		
			Slovakia	Morocco		
			Malawi	Niger		
			Haiti	Senegal		
			Barbados	Honduras		
			Australia	Bulgaria		
			Dominican Republic	Guyana		
			Zambia			
			Venezuela			
			Lesotho			
			Morocco			
			Niger			
			Senegal			
			Honduras			
			Guyana			
			Thailand			
			Turkey			
			Sri Lanka			

Source: WTO (2004).

The particular methods and approaches vary from case to case, depending on the characteristics of the location and the investment environment. In other examples, notably islands, governments have acted as facilitators in a policy that may, for example, enable one operator, usually a TNC, to occupy a location where basic amenities have been provided but where the private sector enterprise is expected to kick-start the development.[16] In the Maldives, for example, the Government leases islands to developers for resort development (land cannot be sold) under a long-term (20- to 35-year or even 50-year) lease arrangement, depending on the value of the investment). Turkey has also encouraged the use of such schemes with foreign investors. A particularly effective example is Brazil, where the public-private partnership approach has been linked with efforts to boost domestic enterprise development (box IV.4.)

Box IV.1. Greenfield approach in Morocco – new ways to tap old markets

Morocco is planning a radical new tourism policy in which TNCs are expected to play a major role. The approach is in some ways counter to the prevailing preference for high-value, low-volume tourism, or for more locally inspired initiatives, because of the scale and type of tourism it seeks to promote. The Government's Vision 2010 gives priority to tourism development, and objectives include more than doubling the number of tourist arrivals. The new plan is based on beach tourism, in contrast to Morocco's traditional image of more culturally oriented tourism, and it aims to target European consumers who are only a few hours' flight away (a market long targeted by neighbouring Tunisia).

At the centre of the tourism plan is the development of six beach resorts, using a public-private partnership approach. Private sector developers are able to purchase sites for which the Government has already provided water and power supply and transport connections. Incentives to hoteliers include 50 per cent subsidies on land prices (up to a set maximum), and exemptions from corporate tax, import duties and value added tax on capital goods. In addition the Government will contribute to the training costs of hotel staff.

To date, international consortiums have been set up to develop five of the sites, with a total investment of at least $2.4 billion. Each site is run by a single consortium: a South African-Moroccan consortium (at El Jadida), a Belgian-French-Dutch consortium (including Accor) at Essaouira, and a Spanish group at Saidia. Two sites (at Tangiers and Marrakech) are being developed by the Moroccan national pension fund (Caisse de Dépôt et de Gestion (CDG)) through its subsidiary Maroc Hôtels et Villages (MHV). Funding committed so far is $144 million from the public sector and $4 billion from private investors. The most expensive site, at Agadir (with estimated costs of $76 million public investment and $1.3 billion private investment), still has to find a backer.

Source: UNCTAD interviews, 2006; http//:www.invest-in-morocco.gov.ma

e. Evaluation of FDI policies and measures in tourism

There is little information available about the relative costs and returns on FDI promotion policies, either in terms of costs and benefits within the tourism industry or in comparison to investment in other areas. Since developing countries have many competing demands on the public purse, this area requires more research and evaluation. The importance of this is highlighted in the UNCTAD finding that FDI can be extremely significant in the earlier years of a new destination, but less so after it has matured. This implies that each country (and the same country at different points in time) needs to consider appropriate strategies according to its particular situation.

For example, studies on the use of incentives in manufacturing suggest that the effectiveness of incentive programmes depends on the market orientation of the foreign investor (*WIR* 2003). They seem to have little or no impact on the country location decisions of firms that are oriented towards producing for the domestic market, but they can influence those aiming at export-oriented investment, including, by implication, tourism. In general, the effectiveness of incentives depends on the ability of a host country to provide matching human resources, technology and production inputs (UNCTAD 2003a).

As can also occur in the case of manufacturing and other activities, there is a risk of a 'race to the bottom' in the use of incentives for tourism-related FDI: if one country offers financial assistance others may feel obliged to do the same or provide greater assistance. This situation would presumably apply to a greater extent for forms of tourism-related FDI that are relatively undifferentiated between locations (such as sun, sea and sand tourism). The risk may be accentuated if investors are footloose. There can also be intense incentives-related competition even within a country (Kumar 2001). Excessive use of incentives can be particularly difficult for developing countries to sustain, and resources that could have been used more productively may be diverted. The inherent prisoner's dilemma in incentive-based competition is a classic case for international cooperation. However, whereas the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement) prohibits the use of export subsidies in the goods area, there are no similar restrictions at the multilateral level in services (discussed in detail in UNCTAD 2004).

The UNCTAD survey of TNC hotels with at least one hotel in a developing country (chapter II) found the importance attached to incentives varies considerably: some hoteliers cited them as having been an important inducement to enter a particular country or to reinvest there, while others said they saw them as a warning signal that perhaps the destination was not likely to be as profitable as they had hoped.

From the host-country perspective, the various promotional activities have different opportunity costs, as well as different potential returns. Low-cost and public-goods oriented activities, such as promoting a destination at trade fairs, may be relatively easy to justify, as may be the provision of basic tourist infrastructure such as airports and harbours, which are also beneficial to many sectors other than tourism. However, subsidizing the capital and operational costs of a private sector enterprise can be more difficult to justify, especially if it is also granted tax relief. Each country needs to conduct its own relevant research, including cost-benefit and cost-effectiveness analyses. For example, a government policy to set aside specific areas for foreign-led tourism development purposes is likely to impose costs on traditional users of that land, even if the "public purpose" of the project is widely justified in terms of its expected boost to the national economy through direct and indirect FDI-related effects.[17] To the extent that tourism-related FDI projects are often of a larger scale or a higher profile than domestic ones, it is important to at least identify, if not quantify, the various costs and benefits of public support schemes; but domestic investors may also be significantly influenced by the availability of incentives. The Tunisia case study (box IV.2) suggested that government subsidies contributed to overinvestment and the wrong kinds of investment in the development of the tourism economy (UNCTAD 2007a).

A crucial question relating to the cost-benefit equation on investment promotion is whether TNCs would have committed funds anyway, without being offered incentives by local, regional or national governments. On this point, responses to the UNCTAD survey and case studies were surprisingly varied. In the survey of hotel chains in developing countries, respondents in general gave a very low ranking to the importance of FDI regulations and incentives when choosing a location (as discussed in chapter II). There were variations in the responses when disaggregated by location, but in the Pacific subregion were incentives cited as being particularly important reasons for choosing a location (chapter II). For the most part, FDI incentives and regulations were reported as being considerably less important than other factors such as consumer demand, tourism assets, country size and growth, national stability, geographical proximity and cultural affinity. This may reflect the fact that most TNCs' participation in developing countries is in a managerial capacity. Incentives designed for investors may well have been critical for domestic owners of hotels, but less so for foreign TNC managers. However, UNCTAD found that developing-country TNCs gave only a little more weight to the role of incentives than did developed-country TNCs, even though the former were more likely to make equity investments than the latter (as mentioned in chapter II), and for that reason might have been expected to be more sensitive to host country efforts to promote FDI. The finding that they are not is significant.

Box IV. 2. Tunisia – Mass market policies are being re-evaluated

Tunisia's traditional approach has been a classic illustration of mass tourism focused around package vacations organized by European tour operators. Approximately 80 per cent of tourists take all-inclusive tours (including transport and transfers) in search of sun, sand and sea. With a bed capacity of just over 34,000 in 1970, today the industry has grown to a capacity of more than 226,000 (for more details, see UNCTAD 2007a). Today its policy stance is changing as the country attempts to create a more up-market image.

a. General tourism policy

When Tunisia became independent in 1956, tourism was already an emerging activity, and it continued to grow throughout the 1960s, due in part to the French TNC, Club Med, pioneering the club concept. In the 1970s the Government gave tourism top priority for its potential to resolve Tunisia's persistent balance-of- payments deficit and poor growth. Successive governments focused mainly on increasing capacity to cater for the European market, and sold the destination as an alternative to countries such as Greece, Portugal and Spain. In order to achieve this, the Government invested heavily in the sector, building hotels and setting up new tourism zones, in addition to establishing the legal frameworks needed to accelerate private investment. The focus was on expanding volume, and not on other aspects of development of the sector.

This supply-oriented strategy has worked well in expanding investment and capacity. The investment incentive code extended a number of advantages to the tourist sector (notably tax breaks, previously offered only to manufacturing), complemented by the creation of specialized banking institutions to mobilize long-term loans at preferential rates. These incentives induced many private and public entrepreneurs to invest heavily in building tourism facilities such as hotels, restaurants and marinas.

b. Policy on tourism-related FDI

The Government has put in place a number of incentives to attract FDI (across sectors, not specifically in tourism), starting with an investment code in 1969 and the establishment of a Foreign Investment Promotion Agency (FIPA). Tunisia's attractions and incentives are summarized for investors in a number of attractive and accessible formats.

There is a strong emphasis on fiscal incentives, and while they apply, in principle, to all investors, several are tailored to the needs of foreign investors. Law 93-48 allows investors to transfer out of Tunisia the accumulated profits, cost of transfer and added value of their investments. Tunisia is a member of the Multilateral Investment Guarantee Agency (MIGA), it recognizes and enforces foreign arbitral sentences, and has double taxation treaties (DTTs) with several countries. Protection of property rights is covered in Law 82-66.

Within the overall approach to FDI, tourism has received considerable attention. Following the first investment code of 1969, specific provisions relating to tourism were issued in 1986. Then in 1990, an investment code specifically for tourism was introduced (Law 90-21) to regulate the overall activities of accommodation, tourist transport and entertainment. Finally in 1993, a new general investment code (Law 93-120) included tourism in the activities to benefit from various advantages.

/…

Box IV. 2. Tunisia – Mass market policies are being re-evaluated (concluded)

The investment codes generally grant major facilities and substantial financial and fiscal advantages to foreign as well as Tunisian developers. The Tourism Code of 1993 offers many incentives, including lower customs duty, suspension of the value added tax, and reductions in company tax. At present, investment incentives to new hotels include low or reduced import taxes on items that are not produced in Tunisia, the suspension of sales tax on new items produced in Tunisia and a 10 per cent reduction in company taxes during the first three to five years. Further advantages were offered for regional development areas known as "zones d'encouragement": for example, investors were exempt from paying taxes on profits for 10 years and from social security payments for the first five years. They can also borrow 70 per cent of the cost of investment up to a maximum interest rate of 5 per cent, in addition to receiving State support for appraisals and project studies. Foreign investors can own 100 per cent of the capital of a tourism company; and a recent change in late 2005 also allows foreigners to own commercial land, thus enabling a more secure ownership of a hotel and its plot than before.

However, there are also restrictions on investment, in that tourism investment is only possible in designated areas fixed by presidential decree. Potential investors need ministerial approval for their projects. There do not appear to be any formal clauses to ensure investment is done in a way which would optimize benefits for Tunisia, such as training, environmental management or local purchasing.

c. Current perceptions

Tunisia entered the new century with impressive statistics in terms of tourist arrivals and investment. Bed capacity more than doubled from 1987 to 2001 and international tourism receipts increased fourfold, or in constant prices they doubled. However, overinvestment in poor quality facilities has also caused significant structural problems. The incentives attracted some investors who were not tourism experts and the country has gained the reputation of being a low-price, but also a low-quality, tourist destination, offering an undifferentiated "3-S" product. The slowing down of tourist arrivals following the September 11 terrorist attacks in New York in 2001 revealed the industry's serious structural difficulties,[a] as many hotels made substantial losses and were unable to service their debts. A substantial proportion of the industry is still struggling, unable to recover from the downturn. The country is now attempting to change its tourism image.

Source: UNCTAD, 2007a.

[a] In 2002 several hotels were obliged to negotiate a rescheduling of their debt. Tunisia's 2004 tax law authorizes banks to cancel interest charges on overdue, unpaid debts held by tourism organizations and their tax penalties can also be waived.

However, in interviews associated with the survey, a more nuanced picture of the role of incentives emerged. On the one hand, as mentioned earlier, in several cases TNC executives said that they saw excessive promotional activities as a warning rather than an attraction. "If incentives are needed, we'd better not go", said the European head of one of the world's largest hotel chains.[18] In addition, in some countries in which TNCs had hotels, the incentives had appeared attractive in theory but proved to be less so in practice. In Tunisia, for example, the length of time and bureaucracy involved in taking advantage of incentives offered, such as tariff waivers, was cited as being so onerous that it was hardly worth the effort to apply for them (UNCTAD 2007a). On the other hand, some interviewees mentioned cases where incentives such as tax holidays or discounted corporate taxes had been critical in hotels' locational decisions. One manager of a hotel chain cited the example of Azerbaijan, where the corporate tax of 32 per cent was waived if the TNC reinvested the profits, and this had prompted the hotel to use additional funds to triple the size of its accommodation. In another example, in Kyrgyzstan, a five-year tax holiday had been an effective incentive to invest in the new tourism destination, and the TNC planned to keep its presence there even though the tax holiday period was close to ending.

This slightly ambivalent picture vis-à-vis the role of FDI incentives does not mean that governments do not have a role. What it does mean is that they need to do more than simply offer financial or fiscal incentives to attract tourism-related FDI. Often, policies that contribute to tourism-related infrastructure development may be more effective for attracting tourists and investment. Tourism-related FDI is likely to respond to higher tourist numbers, a possibility that resonates in UNCTAD's survey findings. In particular, hoteliers said that the most effective way a country can attract FDI in tourism is by providing strong economic growth, a recommendation that goes beyond the realm of tourism-related FDI policy per se, but which is highly pertinent. Governments also need to decide when not to encourage this kind of FDI, including the use of incentives. For example, as shown in the case of Tunisia, blanket policies may result in excessive investments that can lead to structural weaknesses in the tourism economy, and these can take years to resolve.

B. Policies to improve the net returns from tourism-related FDI

Attracting FDI in tourism is only part of the story; a country also wishes to benefit as much as possible from it, whilst minimizing associated costs. As mentioned in chapter I, in some developing countries there is a sense that the benefits have not materialized to the extent expected. The evidence provided in chapter III casts doubt on that perception, but even then it can be argued that more could be done to ensure that a larger proportion of the value created accrues to individuals and entities in the host country.

In the Dominican Republic, for instance, TNC-driven tourism has contributed substantially to economic diversification, geographic decentralization, employment growth, infrastructure improvements, foreign currency earnings, and improvements in other sectors such as agriculture, commerce and transport. However, the enclave nature of tourism-related FDI in the country contributes to the belief that the domestic economy has failed to capture a sufficient share of the benefits created. "Hotels are integrated with international tourist chains, but not the host country. They literally turn their back [on] the country," said one interviewee (UNCTAD 2007a). Nevertheless, there appears to be no indication that the country would prefer to do without tourism development. The question is therefore what can be done to improve the net benefits from tourism-related FDI?

The remainder of this section therefore focuses on policies that could support a country's ability to participate in, or gain from, the TNC-related segments of the tourism value chain. This depends on the extent to which value is created, for example through an increase in tourist numbers, or from the construction of tourism accommodation; but it also depends, crucially, on the extent to which opportunities inherent in this value creation are captured by local people, firms and other stakeholders in the host economy. The findings in chapters II and, especially, III suggest that the extent to which a host country can capture the value created by TNCs in tourism depends in part on the length of time that tourism has been an economic activity in the country; the extent to which local suppliers can provide the goods and services that are needed (i.e. linkages), and the extent to which imported goods are used to complement or substitute for goods and services which are not available locally (i.e. leakages,[19] in the sense of the tourism literature, as discussed in box III.2). The issue of value capture thus hinges critically on whether a host country has the absorptive and productive capacities to make the most of the opportunities that emerge. Thus, following a discussion of value creation below, the rest of this section focuses in detail on policies to create and extend linkages and on other ways of minimizing leakages from the economy.

1. *Policies to enhance value creation from tourism-related FDI*

The aim of tourism and FDI policy should not be to maximize the number of tourist arrivals, but rather to maximize value creation from tourism-related FDI, including net tourist revenues, and to distribute the value thus created and other positive impacts more widely. Looking, for example, at the question of revenue, it is not immediately obvious that a large number of tourists are better than a smaller number. Investors in this industry generally recognize that there is no simple direct link between tourist arrivals and their revenue or profits. Revenue is influenced by tourists' length of stay, where they stay and what they buy, for example. But this has been less widely acknowledged by national policy-makers, who often set targets for tourism policy in terms of arrival numbers.

At one level, this focus on numbers rather than revenue reflects governments' aims to create jobs: larger numbers of tourist arrivals may, on the face of it, create more employment opportunities. But this is not always the case, as smaller, more expensive hotels may employ more people than the larger, cheaper ones; and large expensive hotels will employ even more people. For example, in the Dominican Republic, where there are growing concerns that tourism has not created a sufficiently sustainable growth path for the long term, as already discussed, boosting yields is seen as critical. The United Nations Development Programme's Human Development Report for the Dominican Republic (UNDP 2005, p.16) comments that "the increase of revenues per tourist and per room is the first link to economic sustainability."

Policies for value creation can include general policies to improve the quality of services offered. For example, by enhancing the quality of the accommodation stock and hospitality services so that higher-value added services can be offered, tourists can be encouraged to stay for longer periods of time and to consume a wider range and larger amount of locally provided goods and services. Critically, the level of education and skills of people working in tourism could be improved in order to raise the quality of services offered. TNCs can contribute to this, as described in chapter III, but additional efforts are needed to include the domestic sector. Improved competitiveness of domestic companies (e.g. through better quality linkages with TNCs, as discussed in section C.2) can also facilitate greater value creation in the medium to long run.

Beyond this, policies that promote cultural activities or products on which tourists will spend money can be another source of revenue enhancement. At the narrowest level, TNCs can contribute to this by providing regular employment for cultural dance or musical groups, as in Mauritius, where TNC-based tourism has helped to revive a traditional music and dance form (UNCTAD 2007b). However, this is unlikely to occur on a large scale and it can be rather far removed from the cultural life of the domestic economy. Wider cultural policies at the national or regional level (e.g. support for national and local museums and galleries, promoting local drama and music, festivals and arts and crafts, and investment in sports facilities) can also have an important impact on tourism revenues in addition to enriching a nation's cultural life.[20] For example, tourists to Tunisia seldom experience the country's rich historical and cultural life. UNCTAD found that the average tourist spends only around $50 on "extras" outside the accommodation, food and beverages that are included in their pre-paid package (UNCTAD 2007a). Such low spending indicates that linkages with local communities, other than those created through the hotel itself, will not happen automatically. The fact that in Tunisia most hotels are domestically owned, and not foreign-owned, reinforces the argument that a proactive policy stance is needed in order to reap these benefits, for example to create linkages *a. Conserving the environment*

Conserving and improving the environment is important for its own sake, but this policy can also be seen as a way of creating or retaining value from tourism-related FDI, at least in the longer run. The increasing awareness of the potential negative impact of tourism on the environment has resulted in rethinking the tourism development model, leading to a focus on ecotourism and environmentally sustainable tourism. However this kind of tourism is unlikely to offer the hoped for employment and linkage benefits, and it is likely that conventional tourism will continue to be the norm, albeit with a stronger environmental awareness. This puts an onus on host developing countries to build environmental standards into local planning and licensing laws, and perhaps even more importantly, to uphold them. A degraded environment can rapidly destroy the value creation opportunities arising from tourism.

At the international level, efforts have already resulted in several declarations and documents providing guidelines and frameworks for environmentally responsible tourism such as the Berlin Declaration of 1997 on Biodiversity and Tourism, the WTO-OMT Manila Declaration on the Social Impact of Tourism, the United Nations Environment Programme's guidelines for sustainable tourism and the WTO-OMT Global Code of Ethics for Tourism. An increasing number of countries are embracing best practices in physical planning for tourism, by adopting, for example, the concept of carrying capacities (i.e. restricting transport and accommodation capacities to avoid overcrowding) and requiring environmental impact assessments before developing tourism facilities. The monitoring of environmental changes has also improved. New forms of environmentally friendly tourism, such as ecotourism or sustainable tourism, have emerged, becoming in many destinations a main selling point of the tourism product.

Key actors in the international tourism industry have not only embraced the new concepts but also, in many respects, they have become active promoters of these concepts. Government declarations have been supplemented by private sector instruments. Notable among them is Green Globe, established in 1994 by WTTC, a global coalition of tourism industry CEOs, it is a worldwide environmental management and awareness programme for tourism. Together with ISO's environmental standards, it is a principal tool for ensuring that hotels introduce environmental systems into their operations. The International Hotels Environment Initiative is a global non-profit network of hotel companies promoting environmental initiatives in the hotel sector (for more on these initiatives, see Christie 2003, annex 2, pp. 10-12). Most key transnational hotel chains are already members of this initiative (chapter III).

2. *Policies for capturing more value added from tourism-related FDI*

Host countries can increase the value captured from tourism related FDI through policies promoting linkages between domestic enterprises and TNCs. Such policies include performance requirements, policies to enhance the quality of suppliers and those designed to support linkage creation. These are discussed below.

Interestingly, local partnerships and linkages are not only critical for enabling host countries to realize the full benefits from tourism-related investment, they are also desirable for investors. The UNCTAD survey of global TNCs found that the existence of local partners was a significant factor in their decision to locate in a particular country (chapter II). In interviews, TNC respondents said that partners in host countries were desirable both for additional capital and to help tap local knowledge. However, local communities are not necessarily aware of what they can offer to the TNC-related tourism production chain. For example, local agricultural producers are not necessarily aware of the needs of a five-star international hotel chain, or even a domestic hotel. Similarly, hotels may under-estimate what can potentially be provided locally.

However local, regional and national policy initiatives can help to encourage dialogue between tourism enterprises about their needs and local communities about their potential to supply them. Similarly, a lack of information about what is available locally may inhibit TNC hoteliers from making linkages with potential local suppliers. Among other measures, governments can improve the information networks, for example by providing up-to-date databases so that operators can find new local suppliers, or even more prosaically, by helping to provide a central market place in which hotels can purchase food supplies. In the United Republic of Tanzania, for example, hoteliers complained that there was no single large-scale outlet where they could shop and the transactions costs of dealing with a large number of small-scale suppliers were high.

a. Policies aimed at TNCs: performance requirements

Performance requirements are stipulations imposed on foreign affiliates to act in ways considered beneficial for the host economy. They most commonly relate to the use of local content and inputs (for example in tourism this could include food or construction materials), transfer of technology, employment of nationals, and ownership requirements such as domestic equity or joint partnerships. Their purpose is to induce TNCs to do more to promote local development by creating linkages, transferring managerial skills and techniques, strengthening the technological base, and promoting tourism exports. In tourism, for example, if TNC hotels were not willing to invest in using local resources, and used only imported goods or services, performance requirements might aim to induce them to explore local resources and, where necessary, invest in improving them.[21]

Performance requirements have been used extensively by a wide range of countries in many different industries.[22] Examples in the countries studied for this research on tourism included technology transfer requirements (Bhutan) and limits to the equity share of foreign investors (e.g. small hotels in Mauritius, publicly listed enterprises in Kenya). Based on the case studies, the policy inclination in tourism-related FDI in developing countries, as with FDI in general for developed and developing countries, seems to be that of a declining trend in the use of performance requirements.

In part this reflects the fact that the WTO Agreement on Trade-related Investment Measures (TRIMs) prohibits certain categories of import or export-related performance requirements. Also, an increasingly competitive environment for FDI (and for tourism) makes it more difficult to impose performance requirements without increasing the risk of deterring such investment and affecting competitive performance. For the UNCTAD country case studies, hotels were asked whether they had independent procurement policies allowing managers of food and beverages to source inputs from wherever they chose, or whether major purchases were organized centrally from headquarters. In general, the UNCTAD studies found that while many chain hotels have centralized procurement policies for some products (e.g. crockery, silverware and computer equipment), usually there is considerable scope for financial and catering managers of hotels to buy inputs from wherever they choose.

b. Policies aimed at improving linkage prospects for small or 'infant' suppliers

In some countries there is no dearth of local investors, but in others with domestic capital or skills constraints, policies to help partnerships could serve the dual purposes of enabling domestic investors to tap into the global tourism economy and helping to attract FDI. In some countries there is a need to help emerging suppliers to TNCs gain ready access to finance, business support and training from intermediary associations that understand the tourism industry. Some small and local enterprises may need extra assistance where the drive for economies of scale prompt large hotels to make just one or two contracts with larger or more established corporate suppliers, rather than many small contracts with several small suppliers.

Intermediaries can range from those who serve simply as “marriage brokers” for making introductions, to the more complex role of training incumbent domestic partners, helping to draw up professional business plans, acting as a partnership incubator, or – at a more directly interventionist level – by helping to underwrite the investment costs of small-scale or less experienced local entrepreneurs. This is likely to be an ongoing exercise with respect to aspects such as business advice, financial and managerial skills. The IFC, for example, found in its hotel-local community linkages programmes associated with IFC-loans that there was a need for a single individual whose role was dedicated to the task of keeping the relationship going, even when all parties were committed to and supported the idea of such linkages (IFC, undated). Such incubators currently exist in many countries in the creative industries and in research and development (R&D), in addition to tourism. In developing countries, examples include South Africa's Industrial Development Corporation, which offers medium-term finance in the form of loans and equity in addition to other services, and the use of tourist levies charged by Zanzibar (Sustainable Tourism Levy of $2 per visitor/per night) and Bhutan (UNCTAD 2007a).

In keeping with their interest in expanding local linkages, some TNCs initiate programmes themselves, either individually, or in concert with other TNC hotels, as in the Berimbau project in Brazil (box IV.3). It is in the interest of governments to design policies to encourage appropriate initiatives by TNCs.

Box IV.3. Boosting local procurement – the Berimbau project

The Berimbau community-based tourism project started in 2003, with the partnership of four TNC hotels, the UNCTAD/WTO International Trade Centre, the Bank of Brazil Foundation, a holiday resort manager (Condominio Costa do Sauipe, Bahia), and local communities in the Bahia region of Brazil. Following its success in boosting local procurement and domestic enterprise development, other tourism resorts have entered the region, helping to raise the incomes of traditionally poor communities and reducing the level of unemployment from 30 per cent to less than 5 per cent. Perhaps even more importantly for the long-term, attendance at primary school has increased eightfold.

Berimbau is located in the northeastern region of Bahia, an area once totally reliant on agriculture for jobs and incomes. Following the entry of the Sofitel (French TNC), Marriott (United States), Renaissance (also part of the Marriott chain) and Super Clubs Breezes (Jamaican TNC) hotels, it has now become a thriving tourism destination. With a combined capacity of 1,600 rooms of the four hotels, the resort has become both the principal source of tourism in the region, and the largest single employer.

Initial meetings with communities and the resort’s four hotels revealed a lack of know-how on how to create viable business linkages between the hotels and the communities. Opportunities were identified through a demand survey to assess the supply needs of the Resort’s four hotels, a community census and agro-industry research. Training workshops involved 40 community leaders, NGO representatives and other social agents, including the TNC hotels. Seven tourism supply chains were identified in which local communities could feasibly participate: fruit and vegetable production, fisheries, organic waste recycling, soaps and shampoos, textiles, artisan products and cultural activities.

/…

Box IV.3. Boosting local procurement – the Berimbau project (concluded)

The local communities involved in the project have benefited from a stable and constant market in which to sell their products. By working together through community initiatives and product cooperatives, the producers of various goods have become better organized and are taking advantage of economies of scale. New cultural projects are helping keep the national heritage vibrant and productive and are enabling tourists to experience the local culture. Specific employment benefits that have been associated with the project include the creation of 1,300 new jobs for the local community, raising the monthly salary of artisans from $40 day to $400, the setting up of cooperatives for fishermen, textile workers, and honey and other organic producers, and establishing Capoeira and Samba de Roda performance groups as an economic and cultural activity. Also, a community centre was built that is used by over 4,500 people for adult education, and it includes a computer centre for teaching computer skills. Advanced leadership courses have been offered through the State university for 25 local leaders, and health-care workers now visit the communities to provide regular check-ups. Finally, the resort built a state-of-the art waste processing plant that provides 40 jobs and produces biofertilizer from the eight tons of organic waste produced by the hotels every day. This plant is cited as an example in other tourism locations internationally.

There are also concrete benefits to the TNCs involved in the project such as the lowering of some costs (including transport), reduced crime and the fostering of good relations with the local community. These elements were believed to help to contribute to the resort's long-term sustainability.

Following the success of the Berimbau project, other new tourism resorts in the area are following this example. In the neighbouring resort of Reserva Imbassai, for example, the productive chains that will serve the resort were already being set up, in advance of the construction of the first hotel.

Sources: UNCTAD/WTO International Trade Centre, UNCTAD Expert Meeting, 2005.

c. Policies aimed at improving the capacity and quality of suppliers

Linkages are unlikely to be created where the capacity or quality of suppliers is inadequate, especially with regard to meeting the increasingly stringent standards in the tourism industry, as in many other industries and services. Policy measures could include support for activities aimed at improving quality control, entrepreneurship and other skills and technologies in domestic enterprises.

Training in quality control, including hygiene and health regulations, is important in order to help local suppliers meet international tourism standards and expectations. For example, the IFC, in its hotel-local community linkages programmes cited above, found that local farmers were less able to meet hotels' health and safety standards for meat and poultry than for fruit and vegetables. This could imply that newcomers to the hotel supply business will need assistance to meet the standards required for securing the necessary licences for commercial operations, and to keep them.

A major problem in many developing countries is the lack of policies to encourage the development of local entrepreneurship. To the extent that this relates to TNCs, a coordinated effort between local or national governments and TNC hotels could increase the linkages between domestic enterprises and the hotel value chain. In addition to enabling the host country to capture more value, this would have the effect of reducing the TNCs' use of external resources, including expatriates. Thus, promoting management skills can help to ensure a better balance between domestic managers and expatriates.

One of the most important aspects of policies aimed at qualitative improvements is investment in training, for example through a national hospitality training school or a national training fund to be used by companies in-house. Such training may need to be offered in poor areas to increase the supply of qualified entrants from these areas, to complement the training opportunities that tend to be concentrated in capital cities.

Kenya's Utalii Tourism College demonstrates the benefits of a policy commitment to staff training. Its graduates occupy managerial positions in hotels throughout Kenya, and there is also demand for their services in hotels throughout Africa and in other international destinations. Indeed, there is such high demand for its graduates, that there are plans to build an additional college on Kenya's east coast. The college is financed primarily from a catering and tourism development levy of 2 per cent of the gross turnover of all hotels and restaurants.

TNCs can also be encouraged to support training, not only in their own affiliates, but also in other training institutions, in the form of providing funds, facilities or expertise. In the United States, for example, CEOs of TNC hotels lecture and run training courses at educational centres, and this could potentially be extended to developing countries. There are already examples where TNCs have become involved with training in developing countries in an effort to increase the number and skills of domestic hotel workers. This may take place internally within the hotel: for example, at one TNC hotel in Nairobi a full-time training manager was responsible for coordinating training courses at all the chain's hotels in Africa. All staff members received some form of training, and for some this included working internationally in the chain's hotels elsewhere. However training might also take place outside the hotel, as with the Shangri-La Training Academy in China (chapter III, box III.8).

On the other hand, one TNC hotel manager in Kenya acknowledged that in general, the hospitality industry had not been as good at transferring knowledge and technical skills as it could be (UNCTAD 2007a). It is important to encourage hotels to adopt an explicit policy on training local employees so that they can move up the career ladder. The more such goals are integrated into corporate policy, the more likely it is that "localization" of managerial positions will occur, with some individuals eventually taking up managerial and other positions in domestic enterprises. Hotel managers may have a good profit incentive to do this, as expatriate employees are usually more costly than local employees. However, where there are few training centres for hospitality workers, such as in many LDCs, a headquarters policy favouring "localization" could give a significant boost to local employees hoping to make a career in the industry. Other corporate policies that have a significant impact on encouraging local human resource development could include employee benefits such as medical insurance and pensions.

d. The role of indirect and integrated policies

Linkages can be encouraged through a range of different kinds of indirect policies, including integration with other initiatives, given the cross-cutting nature of the tourism economy. For example, local and national governments could help to encourage linkages between communities and international hotels by encouraging local participation in the development of land-use plans and regulations and through a policy that favours diversification of development, rather than monocultural or enclave types of developments. They also need to strictly enforce zoning and environmental regulations (Meyer, 2006). They could also benefit from economies of scale by promoting destination-wide initiatives, which would involve bringing together tourism operators and suppliers, and not just promoting hotel- or resort-specific schemes. This may need coordinated involvement, most probably through local or national government, but also at the regional level.

Among the UNCTAD country case studies, Bhutan provides a good example of policies aimed at conserving the environment by promoting low-volume, high-price tourism, but where there needs to be more attention paid to encouraging enterprise-supplier business linkages throughout the length of the tourism value chain (box IV.4).

Box IV.4. Bhutan – Targeted promotion of low-volume, high-price tourism

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

In terms of FDI policy, Bhutan requires a minimum investment of $0.5 million. Foreign investors can hold up to 70 per cent of total equity, and performance requirements include fostering the transfer of technology and providing management skills, training and employment to Bhutanese nationals at all levels of the enterprise (although it is not clear how these are monitored in practice). Equity in locally incorporated companies cannot be sold without prior permission from the Government. Hotels are limited to a maximum capacity of 50 rooms in urban areas and 15 rooms in rural areas (interestingly in most countries FDI limits are floors, not ceilings). Foreign tour operators are not permitted.

At a practical level, the policies are less clear-cut. For example, what constitutes technology transfer is not specified, and it is not clear what would happen if it failed to occur. To date, no prospective foreign investor has been turned away, but it is also notable that the first two foreign hotels to enter offer high-priced services to a very small number of visitors, and their human resource and procurement policies are aimed at helping to transfer technology through the chain (see chapter II) in line with government policy. Since the arrival of the Aman and Como groups, other TNCs have plans to enter the county, targeting a lower level of the high-priced market.

At one level, Bhutan has made a virtue of necessity – its very location means that it was never likely to become a mass tourism destination, and it does not have such obviously striking tourist assets as its close neighbour, Nepal, which for example has Mt Everest within its borders. Moreover, mass tourism would not have been compatible with the country's wider social and economic goals, which include the desire to develop at a slow and measured pace that does not threaten the country's focus on "gross national happiness" rather than gross national product. The minimum $200 day entry fee deters the development of a relatively low-priced market, while allowing local tour operators a monopoly has minimized the role of foreign tour operators.

However, despite this, there are missed opportunities to boost linkages between tourism enterprises and the rest of the economy. Somewhat unexpectedly, linkages with the new TNC hotels appear to be greater than with the domestic hotels, in terms of employment-creation effects and procurement for example. These linkages matter, because they are a way of spreading the revenues and development benefits of tourism more widely throughout the country without having to open up new areas to tourism. The linkages have emerged spontaneously, not through government policy, but their existence has helped reveal the need for policies that could promote more linkages between the domestic hotels and the domestic suppliers of inputs such as food and textiles. In addition to increasing the job-generating capacity of the tourism sector, policies should also be aimed at helping to raise the standards of quality in the domestic hotels.

Source: UNCTAD, 2007.

C. Conclusions

This chapter has shown that almost all countries are now open to FDI in tourism, compared to previous decades when a more varied policy approach was apparent. Many countries are nowadays actively encouraging tourism-related FDI. This tendency is reflected in the organization of trade fairs and other promotional activities, the offer of fiscal and financial incentives to hotel investors or management companies, as well as measures to underwrite public-private partnerships. However, fewer countries have paid as much attention to policies that would enable them to benefit more fully from the FDI they attract.

Foreign hotels and other foreign investors in tourism can be an important complement to what is available domestically in terms of investment capital, managerial expertise and business know-how. They can help attract tourists, build hotels and create jobs. However this should be regarded as a minimum. Policies should first aim at value creation – not just increasing numbers (e.g. of tourists and jobs). This entails ensuring the creation of high-skilled and high-paid jobs, as well as the supply of goods and services in the wider tourism value chain. Second, policies should aim at helping domestic firms and organizations capture a greater degree of value; that is, ensuring that they become more equal partners in the process. This might require improving the capabilities of domestic entrepreneurs. TNCs can be enlisted in this process, for example by supporting technology and skills diffusion to the local economy (e.g. through quality enhancement programmes and training).

Overall, an integrated, coherent approach and policy framework is essential to ensure greater benefits from TNC participation in the tourism industry and to minimize potential negative impact. It is not so much about promoting a different kind of tourism, but rather about promoting tourism differently, in ways that create more and better linkages throughout the value chain. For example, ecotourism is fashionable and has obvious benefits for the environment, but it does not generate many jobs. Depending on the country, its resources and needs, tourism on a larger scale, and with numerous direct and indirect linkages to the local economy through employment and procurement may be more in line with a country's objectives for human and social development. TNCs can contribute to this, but there is also need for a coordinated approach that includes government promotion of certain key elements. Of course, TNCs should be only one of a number of different participants, including domestic investors, at all levels.

Finally, while tourism offers many opportunities, it can also entail a number of costs, whether or not foreign investment and TNCs are involved. Not least, 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 tourism, the overall approach has to be carefully considered, and excessive reliance on a single sector – no matter how broad and cross-cutting – is not advisable.

Notes

1 Example cited at the annual World Tourism Forum meeting, Brazil, December 2006.

2 There seemed, for example, to be little communication between trade, investment and tourism ministries.

3 Examples include government-owned hotels in emerging tourism economies, where a major hotel is needed to provide an important gateway, or in post-conflict zones. These anchor hotels may be designed and built in collaboration with TNC hotel chains, as well as being managed by them.

4 Tourism was defined fairly narrowly, covering only hotels, restaurants, travel agencies and tour operators, and restrictiveness was measured in terms of limits on foreign ownership, the use of screening or notification procedures, management restrictions and operational restrictions.

5 For example in Indonesia, in practice foreign investment in hotels has taken as much as 100 per cent of equity value in some instances, although the WTO commitment guarantees only 49 per cent. (UNCTAD interview with investment agency Badan Koordinasi Penanaman Modal, 2006).

6 The Vienna Convention defines a reservation as a "unilateral statement, however phrased or named, made by a State, when signing, ratifying, accepting, approving or acceding to a treaty, whereby it purports to exclude or modify the legal effect of certain provisions of the treaty in their application to that State" (cited in UNCTAD 2006c, p3).

7 This does not include hotels in Zanzibar, where different conditions apply and where the minimum investment is $4 million.

8 The GATS schedules of WTO members are publicly available on the Services pages of the WTO website at: http://tsdb.wto.org/ wto/WTOHomepublic.htm.

9 An overview of the GATS can also be found on the WTO website. While there is a rough correspondence between the level of development and the level of GATS commitments for existing WTO members, countries recently acceding to the WTO have been required to make significantly higher levels of commitments in order to gain membership.

10 Further details on the Doha Round of negotiations on services can be found at: http://www.wto.org/ english/tratop_e/serv_e/ s_negs_e.htm.

11 The only recent WTO discussion on tourism was in 2004 based on a joint paper presented by Bazil, Colombia, the Dominican Republic, El Salvador, India, Indonesia, Nicaragua, the Philippines and Thailand, which concluded that the initial offers of developed countries were still far from containing tourism-related improvements and elements that concerned developing countries. The paper prompted extensive initial comments, but little follow-up discussion has since occurred.

12 Tourism-related issues which could benefit from discussions in the context of a "Friends Group" include: linkages between GATS tourism-related commitments and poverty alleviation; the role of GATS commitments in promoting sustainable tourism development; tourism checklist/model schedule approaches for negotiating requests and offers; examination of offers on the basis of an expanded tourism classification; mode 4 aspects, including recognition of tourism qualifications; linkages with air transport; technical standards in tourism; and the possibility of scheduling additional commitments relating to regulatory measures.

13 Singapore and Ireland stand out as examples where an IPA has been able to coordinate the strengthening of domestic capabilities in parallel with attracting investment. They have targeted high-value services and ensured that new skills, state-of-the-art infrastructure, support institutions and policies have evolved in line with the needs of these activities.

14 UNCTAD will report on developed-country policies with respect to tourism-related FDI promotion in a separate publication (forthcoming).

15 An obstacle cited to regional tourism in East Africa at present is that tourists cannot cross the national borders between the Serengeti National Park in the United Republic of Tanzania to the neighbouring Masai Mara National Reserve in Kenya – even though the animals can cross freely.

16 By comparison, the LDC island of Cape Verde is launching an FDI promotion initiative to attract tourism from European markets (some four to five hours' flight away). The promotion is notable in that it does not include a well known hotel group as an "anchor". Instead, central to Cape Verde's strategy are a number of tourist villages where foreign investors can buy apartments or houses, which can then be managed through a property leasing company.

17 Even if such an exercise were to be based to a large extent on conjecture, it would help identify the various stakeholders involved in tourism development and the issues that are at stake. Important counterfactuals that will pose a challenge to the analysis include: what tourist revenues are likely to accrue with and without the subsidies, and how will they be distributed? What other activities might be foregone? How will displaced

communities be recompensed? These questions go beyond the issue of FDI alone, because domestic investors may also be involved.

18 UNCTAD interview, 2006.

19 In the "tourism literature" sense as discussed in box III.2.

20 In Scotland, for example, it has been estimated that current tourism expenditure related to the nineteenth century poet, Robbie Burns, alone is worth £100 million per annum (Scottish Enterprise 2006). There are numerous developing-country examples where tourism revenues have been boosted considerably by local cultural events. For example in Trinidad, it has been estimated that tourists visiting for its celebrated carnival spend more than $200 million every year (Mason 1998:122). Annual tourism revenues earned by the international film festival in Burkina Faso may be on a much smaller scale, but they can be as important to the local economy.

21 See UNCTAD 2003a, Chapter IV and 2003b for more general discussions on the use of performance requirements.

22 See Moran 1998, Kumar 2001, Safarian 1993 and UNCTAD (2003b).

Chapter V

Conclusion

International tourism is – and most likely will remain – a rapidly growing industry, with many opportunities for profitable gain from a corporate perspective. The total number of international tourist trips to all destinations reached 842 million people in 2006, with the fastest rates of growth of tourist numbers (over 2005) being to the Asia-Pacific (a 7.6% rise in tourists) and Africa (8.1%),[1] although Europe remains the single largest destination. The projected increase in international tourism is likely to continue apace in 2007, again with the highest changed in the Asia-Pacific[2] (8%) and Africa[3] (9%).[4] These trends in international tourism reflect an apparently inexorable shift of international patterns of production, investment and trade from the developed to the developing world (as discussed in UNCTAD 2006a). For example, in 1990 only 18% of international tourism receipts were earned by developing economies as tourist destinations; by 2005 this share had risen to 30%, as these countries continue to attract visitors at a faster pace than their developed peers (an average of 10.2% to 7.1% increase during 2000-2005) (UNWTO 2006). The fastest rate of increase in tourist arrivals has been to the least developed countries (12.0% 2000-2005), albeit from a very low base. The UNWTO forecasts that by 2020 there will be 1.6 billion tourists (twice the numbers in 2006) and, at the current rates of growth, a majority of these will be going to developing market destinations.

Given these prospects, it is also likely that tourism TNCs will continue to extend their activities in both absolute and relative terms throughout the developing world. Moreover, the role of TNCs from the South will also increase, with implications for rising corporate competition given higher levels of South-South and North-South tourism FDI. Part of the rise of developing country tourism TNCs can be explained by the extensive and growing numbers of new tourists from places such as Brazil, China, Malaysia, the Persian Gulf countries and the Russian Federation. For example, between 2000 and 2005 international tourism *from* China trebled to 31 million tourists and some projections suggest that up to 100 million Chinese will be travelling abroad by 2020 (Zhang 2006). Most of these Chinese tourists will travel to nearby countries in Asia, which mirrors an increasing level of South-South international tourism. Intra-regional South-South tourism has already reached high levels in Asia and Latin America and is growing fast in Africa.

The consequences of these trends require further investigation so that developing countries can devise appropriate policies, both to take advantage of emerging opportunities and to mitigate the effect of adverse developments. In particular, tourism FDI will undoubtedly make further inroads into developing countries, so the impact issues and consequent policy implications will come even more to the fore. Emerging issues that need to be examined more include, for instance:

- The implications of the rise of South-South tourism and tourism FDI. Do the demand patterns of tourists from the South differ markedly from those from the North, for instance in the category of hotel in which they stay or the goods they consume?
- How will the rise of "e-tourism" to developing countries, for example the on-line booking of holidays and cheap airlines, influence which companies provide the relevant services?[5]
- How can tourism FDI be used to promote sustainable development and poverty reduction? In the past, tourism and tourism TNCs have received a bad press as potential sources of development. However, this report has

shown that tourism FDI can have a net beneficial impact in developing countries, under the right conditions and appropriate policies. As tourism FDI makes greater inroads into developing regions, this issue takes on an increasing significance. In fact, 'pro-poor tourism' has already become a part of the tourism and development lexicon, and is a term used to describe an approach that focuses on the links between sustainable tourism and poverty reduction. A new research and policy agenda is emerging, looking for ways in which the employment-generating potential of tourism can be better harnessed to the needs of the poor.[6] However, the role of tourism FDI has seldom been factored into the discussion. This is something which is urgently needed – and this report goes some way towards starting a dialogue on this issue.

While at present many developing countries, including LDCs, stand at the cusp of benefiting from a significant expansion of international tourism to the South, at the same time, it is important for policy makers to recognise that contrary trends exist which should be taken into account – and countries should not put all their eggs into one basket. For example, in the wake of global warming and other ecological disasters, there is an increasing reassessment of lifestyles among middle class tourists in the North (on whom much of the expansion in tourism will depend). This could lead to a reduction in tourism activity (in terms of travel and tourist arrivals) and the hopes of many a 'distant developing land' could be dashed. A further outbreak of a dangerous viral epidemic in a developing region, or sustained levels of terrorism targeting tourists, might have a similar effect.

At the same time, it is important to highlight the opportunities that specific niches in the tourism industry can offer, for instance, cultural, ethical, ecology-friendly tourism or spa resorts and sport tourism – where the numbers of tourists are small, but high spending and supportive of the creation of sustainable infrastructures and organisational capabilities. Developing countries from Peru to Morocco to India, and the interconnected Silk Road lands of Central Asia, already take considerable advantage of a number of high-value added niche segment of the tourism market. LDCs need not be left out, with Afghanistan, Bhutan (one of the countries in the UNCTAD survey), Cambodia, Ethiopia, Mali and Tanzania – among others – all well placed to potentially benefit from this trend. Policy makers need to understand far better the needs of this category of tourists in order to benefit from their arrival. Countries can aim at these tourism segments, as part of an overall strategy, even under the likely scenario of a rapidly growing international tourism market. As always, a strategy stressing diversity, including utilisation of both TNCs and local companies in a country's tourism-related development strategy, is the wisest course.

Notes

1. These Data are the latest estimates from UNWTO in Madrid.
2. Fastest in South East Asia and South Asia.
3. Fastest in sub-Saharan Africa.
4. In 2005 there was also a rapid rate of increase in tourist arrivals to the Middle East and Latin America and the Caribbean, but this tailed off in 2006, partly because of perceived risks in these destinations, and this slowdown is projected to continue in 2007. However, the absolute number of tourist arrivals has continued to increase by 2-4% annually in both regions.
5. As an analogous example, the online travel market in Europe soared from Euros 0.2 billion in 1998 to 31.5 billion in 2006 (Buhalis 2006).
6. "Pro-poor tourism focuses on changing the nature of tourism developments so that they increase the flow of income to poor people, or increase their assets of participation" (IDS, 2006) (see, for example, www.propoortourism.org.uk and UNWTO 2005, 2007).

Annex A

Tour operators, airlines and global distribution systems

Tour operators, airlines and international reservation systems, known also as global distribution systems, are, along with hotels, key actors in international tourism, including in developing countries. They strongly influence visitor flows to developing countries, and thus the type, size and impact of tourism in a particular country or region. But they undertake little FDI, if at all, in their main areas of activities, which are more related to trade than FDI. Many of them are TNCs by virtue of investing abroad in tourism activities other than their own, giving rise to vertically integrated tourism TNCs. Tour operators own travel agents, airlines (or aircraft) and hotels. Airlines can own tour operators, travel agents and hotels. But to the extent that this takes place in the same home country, it does not make these companies TNCs. A case in point is British Airways owning British Airways Holidays and British Airways Travel Shops Limited, all British companies. It is a TNC mainly through its hotel ownership or control abroad. There is also some FDI in the airline industry and in airports, but, to date, it occurs relatively rarely in developing countries, and it is seldom motivated by international tourism considerations.

A.1. Tour operators

Tour operators create so-called "package tours" by combining two or more components of the tourism product (e.g. transport, accommodation, catering, entertainment, sightseeing) and selling them to final consumers – tourists – through travel agencies or directly. The sales take place in the country of origin of the tourists. They do not produce tourism services themselves (unless they own a hotel, aircraft or airline); rather, they act as distributors or wholesalers of these services. Services are produced by airlines, hotels, local transportation and tourist service companies (sometimes called incoming tour operators) and local guides, which tour operators contract ahead of time. Tour operators may have a limited number of staff to receive their clients in some countries.

The main impact of tour operators is that they are instrumental in sending large numbers of tourists to destinations worldwide, thus creating the volume of tourist traffic that could not be achieved through individual visitors. Tour operators "decide which end product to market to separate segments of potential demand based on the quality and competitiveness of the product, the evidence of market acceptability through the positive or negative reactions of returning tourists and the margins the distributors receive from selling a particular end product" (Christie 2001, annex 1, p. 1). The tour operators mark-up on their packages is between 15 per cent and 35 per cent, but the industry is very competitive and, after deducting operating costs and overheads, profits margins are said to be often very low – 1 to 2 per cent of turnover (WTTC et al. 2002, p. 23). However, this is not how they are perceived in developing countries.

The largest and most influential operators are based in tourism-generating developed countries, the major ones being, in order of size of the outbound tourist traffic, the United States, Germany, Japan and the United Kingdom. Europe as a whole generates the largest number of international tourists, accounting for approximately 60 per cent of worldwide travel and 12.5 per cent of arrivals in developing countries (WTO/OMT 2001, 2003).

The role of tour operators in generating the outbound flow of international tourists is particularly important in Japan and Europe, but smaller in the United States. For example, in Japan, 85 per cent of Japanese tourists buy organized package tours sold by tour operators, and in the United Kingdom 54 per cent of all outbound tourism was arranged by tour operators and 59 per cent sold through travel agents in 2000 (*Key Note*, 2001). One third of travel to developing countries (out of a total of 4 million United Kingdom tourists) was booked through tour operators that year (Mintel, 2001).

The industry consists of a very small number of large tour operators and a large number of very small specialized firms. In Europe, there are five large outbound companies and some 4,995 small companies employing 5 to 100 people, often catering to special interests or low volume destinations (WTTC et al. 2002, p. 23). In the United Kingdom, for example, four tour operators (TUI UK, MyTravel, Thomas Cook and First Choice) account for over 75 per cent of all outbound package tours, while another 1,500 operators account for the balance. In Germany, TUI, C&N and Rewe controlled over 80 per cent of the market in 2001 (Haedrich et al. 2002).

Similarly, in Japan, a small number of large outbound agents (i.e. the traditional mega wholesalers, such as JTB, Kinki Nippon Tourist (KNT) and Nippon Ryoko (NTA), dominate the industry, accounting for more than 60 per cent of the market share (WTO/OMT 2002). In the United States, however, the number of major tour operators is much larger, around 40 firms, whose market share is estimated at around 30 per cent (UNCTAD, 1999b). In addition, two thirds of travel agents in the United States are independent, without any association with tour operators or airlines (as opposed to one third in the United Kingdom), but there are exceptions (box 1). This gives rise to a distinct difference between Europe and the United States in how tourism products are sold and distributed. In Europe, where distribution channels are typically vertically integrated, with large tour operators often owning travel agencies, 60 per cent of packages are sold via these channels. The major distribution channels in the United States are computer reservation systems.

Box A.1. Vertical integration in United States tourism

In the United States, most of the tourism products are sold and distributed through computer reservation systems. The most notable exception is Cendant, one of the largest hotel groups, mentioned earlier, but also in fact a huge vertically integrated tourism conglomerate created through a series of acquisitions. The company offers a wide range of integrated services, from travel distribution and hospitality, to car rentals. Its most recent acquisition was that of Budget car rental company in 2002, in addition to Avis, which it already owned. The car rental division also includes fleet management and fuel card services. The travel distribution segment consists of a global distribution service (Galileo International, one of the key worldwide distribution systems), hospitality and leisure services (Trust International, WizCom, THOR), retail travel services (Cheap Tickets, Lodging.com, Cendant Travel, Trilegiant), online corporate services (Travelport) and airline services (Shepherd Systems).

Other exceptions include Carlson Companies, owning more than 1,700 hotels, resorts, restaurants and cruise ships, as well as the travel agency, Carlson Wagonlit Travel, a joint venture with Accor (each holding an equal 50 per cent stake). In Europe, the largest tour operator, TUI, is also vertically integrated (Table A.1) and has recently begun investing in hotel accommodation in Morocco. .

Table A.1 profiles the largest European tour operators that are vertically integrated into other tourism activities. It throws some light on their TNC and FDI activities, although many details are missing. All are TNCs by virtue of owning outbound tour operating divisions in other tourist-generating countries, the great majority of them other developed countries and countries in Central and Eastern Europe. Only one, Thomas Cook of Germany, has such divisions in two developing countries, Egypt and India. Furthermore, they own many tour operators and a large number of travel agencies, most likely, in their own countries and other developed countries with significant outbound tourists. All own aircraft, most likely in their own countries, to transport tourists to destinations – not a TNC activity. Cruise ships, if not owned by a foreign affiliate located in another country but by a division of the parent company, are, as aircraft, used for the provision of international transport and tourism services and do not represent FDI.

Table A.1 The largest European tour operators

Company	**TUI AG (2001)**	**Thomas Cook AG**	**MyTravel PLC**	**Rewe**	**First Choice**
Country of registered ownership	Germany	Germany	United Kingdom	Germany	United Kingdom
Annual turnover	23.8 billion €	8 billion €	8.2 billion € (United Kingdom only)	3.9 billion €	3.8 billion €
Employees	70,000	27,000	27,968	5,900	14,000
Customers	22 million	13 million	15 million		5 million
Outbound tour operating divisions in the following economies	15 European countries	Germany, United Kingdom, Ireland, France, Benelux, Austria, Hungary, Poland, Slovakia, Slovenia, Egypt, India, Canada	United Kingdom/Ireland, Northern Europe, Germany, Austria, Switzerland, North America	Germany, United States, Italy, United Kingdom	France, Spain, Italy, Portugal, Germany, Belgium, the Netherlands, Austria, Switzerland, United Kingdom, Ireland, Canada
Selected destinations in developing economies in 2002/03 featured by tour operators belonging to the group	Barbados, Botswana, Cambodia, China, Cook Islands, Cuba, Dominican Republic, Egypt, French Polynesia, Gambia, India, Indonesia, Jamaica, Kenya, Malaysia, Maldives, Mauritius, Mexico, Morocco, Myanmar, Namibia, Nepal, Reunion, Samoa, Seychelles, South Africa, Sri Lanka, Saint.Lucia, United Rep. of Tanzania, Thailand, Tunisia, Zambia, Zimbabwe	Barbados, China, Costa Rica, Cuba, Dominican Republic, Egypt, India, Indonesia, Kenya, Malaysia, Maldives, Mauritius, Mexico, Morocco, Nepal, Peru, South Africa, Sri Lanka, Saint Lucia, Seychelles, Thailand, Tunisia, UAE, Viet Nam, Zanzibar	Antigua, Barbados, Brazil, Cambodia, China, Costa Rica, Cuba, Dominican Republic, Egypt, Gambia, India, Indonesia, Jamaica, Kenya, Malaysia, Maldives, Mauritius, Mexico, Morocco, Myanmar, Oceania, Saint Lucia, Seychelles, South Africa, Sri Lanka, United Rep. of Tanzania, Thailand, Tobago, Tunisia, UAE, Viet Nam	Egypt, Bulgaria, Dominican Republic, Jamaica, Kenya, Cuba, Maldives, Morocco, Mexico, South Africa, Tunisia, Thailand, Turkey, Antigua, Argentine, Aruba, Bahamas, Barbados, Brazil, Chile, Cook Islands, Costa Rica, Curacao, Fiji, Polynesia, Grenada, Guadeloupe, India, Indonesia, Cambodia, Lao PDR, Malaysia, Oman, Puerto Rico, Namibia, Zambia, Seychelles, Sri Lanka, Saint Lucia, Tobago, Tonga, Venezuela, Viet Nam	Barbados, Belize, Bhutan, Bolivia, Borneo, Botswana, Brazil, Cambodia, China, Costa Rica, Cuba, Dominican Republic, Egypt, Equator, Eritrea, Ethiopia, Ghana, Guatemala, India, Indonesia, Islamic Rep. of Iran, Jamaica, Jordan, Kenya, Ladakh, Madagascar, Malawi, Malaysia, Maldives, Mali, Mexico, Morocco, Mozambique, Namibia, Nepal, Pakistan, Peru, South Africa, Sri Lanka, Sudan, Syrian Arab Rep., United Rep; of Tanzania, Thailand, Tibet, Tunisia, Zimbabwe
Ownership of:					
Tour operators	81 tour operators	33 tour operators	39 tour operators	7 in Germany, 4 elsewhere	28 tour operators
Travel agents	3,700 travel agents	3 600 travel agents	2 001 travel agents	818 travel agencies	300 agents plus 37 hypermarkets (United Kingdom only)
Aviation	88 aircraft	87 aircraft	49 aircraft	40% share in LTU (25 aircraft	26 aircraft
Other	• 32 Incoming agencies • 150 000 beds in 287 hotels • Business travel division	• 76 000 beds • Incoming agencies	• 4 cruise ships • 125 resort properties • Incoming agencies	• resort properties • Incoming agencies	• Joint venture with Royal Caribbean Cruise Lines • 1 200 yachts • Incoming agencies

Source: Meyer 2004, p. 7, based on company websites.

The tour operators listed in table A.1 also own hotels and resorts and to the extent that these are located in other countries they could be considered TNCs and their ownership of the hotels and resorts could also be considered FDI. But tour operators who do not own hotels or resorts and simply send tourists to many destinations in developing countries would not be considered as undertaking any FDI. There are also incoming agencies serving the needs of incoming tourists in receiving countries. But tour operators for outbound tourists very rarely own tour operators for inbound tourists: 99% of the latter are local independent businesses, including in developing countries, where there is intense competition among them to represent tour operators of outbound tourists (WTTC et al. 2002, p. 23).

For any tourism destination, it is impossible to ignore the potential of tour operators based in generating countries. This is especially true for many developing countries that lack resources for international marketing campaigns and have to rely on tour operators for the inflow of tourists and marketing. Therefore they often target tour operators and travel agencies. But it is a different type of targeting than targeting of foreign investors, one of the key functions of FDI promotion. It involves paid familiarization trips to the destination, bonus trips for successful marketing of the country, paid conferences in selected regions and, ultimately, incentives to bring tourists to the destination (Christie 2001, Annex 1, p.6).[1]

Key influences of tour operators on tourism in developing countries include (Meyer 2004):[2]

- *Image creation and access to consumers.* Mainstream tour operators have direct access to a large number of customers. Travel products are highly marketing-intensive and tour operators provide the images, information and options upon which customer awareness, demand and buying behaviour are based, frequently with limited input by host countries.
- *Volume and type of tourism.* With many destinations offering a similar product (e.g. sun, sand and sea) and marketed in a similar way, price is a major factor influencing tourists decisions. The main benefit provided by mainstream tour operators to developing countries is that they can significantly increase the volume of tourist arrivals, which can lead to employment generation, export earnings and economic development. However, high volumes are achieved by providing low-cost holidays through economies of scale, bulk-buying and low input prices, which exert a downward pressure on prices and profits of airlines and hotels. Price-sensitive mass tourism that caters to low-spending tourists is characterized by a smaller yield per visitor than specialized tourism that caters to richer tourists (as discussed in chapter 2).
- *Switching destinations.* Because mainstream operators sell a product, rather than a destination, destinations offering similar attractions become interchangeable like commodities. This means that operators can easily react to consumer demand and switch to

[1] In 2002, the Greek Government launched a programme of subsidies to major tour operators bringing travellers to Greece as part of its efforts to do away with the concept of a "tourist season" and attract visitors year-round. In order to boost arrivals beyond the traditional May-October season, a subsidy of 40 euros per tourist was offered to tour operators to bring visitors to Greece by charter plane on organized tours only in the months of March and November. The scheme ran for over three years and was designed to stimulate "pre-Olympics" tourist traffic. A major share of the subsidies went to tour operators in the United Kingdom and Germany, Greece's two biggest source of tourists.

[2] To quote one source on the role of tour operators, "[T]he competitive advantage of the tour wholesalers lies in their doubly strategic position between all principal suppliers and between suppliers and consumers. Their power derives from the enormous volumes they can command, their pivotal familiarity with diverse market segments, and the capacity to shift tourism flows from one destination to another" (Britton 1991:457).

destinations that offer more favourable terms (e.g. a higher quality product at a lower price, owing, for example, to a favourable exchange rate). This increases the vulnerability of developing- country locations that rely heavily on tour operator-generated tourism.

- *Vertical integration.* Many large tour operators are vertically integrated, as noted earlier, through ownership or alliances with hotels, airlines or reservation systems. Thus if they are interested in a particular country, they are able not only to provide a supply of tourists, but also other services such as accommodation and transportation. Investing in hotels in a country makes them less prone to treat that country as an interchangeable destination. But vertical integration is said to reduce developing countries benefits from tourism, as it is the large operators that captures the commissions and not the country.
- *Changes in travel habits*. Since tour operators adjust their offers to changing demand and tourist preferences, they have sometimes been criticized for reducing benefits to developing countries from tourism. Hotels in developing countries (e.g. in the Caribbean), for instance, claim that the shift from individual travel to group travel and tour packages has resulted in lower room rates. Smaller hotels are adversely affected by group travel because of the unwillingness of tour operators to disperse a large group of tourists among a number of small hotels, often of varying quality. Another consequence of group travel is reduced availability of airline seats to individuals who are often clients of small hotels. And the trend towards all-inclusive vacations in large hotels or resorts is perceived to reduce linkages to the local economy and population. On the other hand, this type of vacation often attracts higher income tourists and generates repeat business.

All destinations in developing countries are featured by intermediaries, through which marketing and booking are facilitated. The main tourist-receiving developing countries in terms of volume of arrivals tend to feature mainstream destinations for tour operators, be they in northern Africa, the Caribbean, Mexico or South-East Asia. Rising demand by European tourists for Thailand, the Dominican Republic and Mexico are classic examples of how arrivals have increased in the past few decades due to well known low-cost tour operators adopting these destinations. They have become competitive destinations owing also to charter airlines selling seats often at less than half the price offered by scheduled airlines. Tunisia and Morocco are examples of this, discussed in this publication.

In fact, several developing countries discourage independent travel which is not organized through tour operators. A case in point is the Maldives, often cited as a success story in terms of elevating itself out of LDC status, which today imports 50 per cent of its tourism-related workforce from neighbouring countries (Lyon 1997). As mentioned in the main text, Bhutan also has banned travel not organized through a local tour operator. Similarly, efforts to attract tourists to Southern Africa focus on organized international mass tourism (Baskin 1995). Botswana has an explicit government policy that favours high-end organized tourism and discourages backpackers and independent travellers.

The following are other examples of the key role played by tour operators:

- Spain developed as a tourist destination by relying initially on tour operators after the Government opened the country to mass international tourism in the 1970s. Cheap charters organized by the German tour operators, Neckermann and TUI, triggered German mass tourism to Majorca. The Balearic Islands were the poorest areas of Spain in 1950 and by 2000 they were among the richest, almost entirely due to organized tourism (WTTC et al. 2002, p. 24).

- Cancun in Mexico had a local population of 600 before tourism arrived. It now has a local population of 600,000 who make a living largely based on organized tourism from North and South America and Europe.
- A relative newcomer, Turkey, relies heavily on West European tour operators. Malta, similarly, was highly dependent on tour operators in the 1980s and 1990s, in particular British tour operators, that were responsible for more than 50 per cent of arrivals. In order to encourage these tour operators and prevent them from switching to other destinations, they were given financial support for maintaining competitive prices, joint advertising and forward buying rates until this was phased out in the mid-1990s.
- In Tunisia, from the 1960s to the mid-1980s, the Government directed its efforts to attracting Western package tours (approximately 80 per cent of arrivals to Tunisia are users of package tours). There was strong State involvement in tourism facilities, with severe restrictions on the repatriation of profits. This policy was modified in the mid-1980s and attempts were made to encourage foreign investment. Investment in the hotel sector, fuelled by tour-operator-led charter tourism, increased drastically between 1977 and 1992.
- In 2003, the TUI group unveiled a plan to consolidate its 35-year presence in Morocco. The group, which has become an important actor in Moroccan tourism, intends to develop its hotel network in the country by building three hotels with a total capacity of 2,000 beds. It also intends to open new hotels in Marrakech and Agadir and to increase flights to Morocco from Germany, France and Belgium. The Government plans to attract 10 million tourists by 2010, and is exploring a partnership arrangement with TUI to further increase direct flights between Moroccan cities and foreign markets.

As indicated above, the impact of tour operators on tourist arrivals also works in the opposite direction: destinations can be highly dependent on tour operators reactions to, for example, travel warnings and decisions to pull out. There are many examples of tour operators withdrawing from a country in response to warnings (prompted by crises, such as war, epidemics and conflicts) resulting in a drastic reduction in tourism. UNCTAD research in Sri Lanka shows the devastating effect that this can have on the tourism economy (see country case study in UNCTAD (2007a).[3]

A.2. Airlines

Airlines are an integral part of the tourism industry (WTTC et al. 2002), linking tourist demand with supply of tourism services in a destination country. By some estimates, 30- 40 per cent of all international tourist arrivals globally are by air (Page 1999; Vellas and Becherel 1995). Most developing countries rely on air transport for the growth of their tourism industry. In island countries it is not uncommon to receive over 90 per cent of all arrivals by air. During the period 1995-1999, LDCs that saw high growth in air travel also experienced rapidly growing tourism (e.g. Cape Verde, Guinea and Uganda).

[3] Another example is Gambia, where by the end of the 1980s tourism accounted for 12 per cent of GDP and became a principal source of foreign exchange earnings. After a coup d état in 1994 the British foreign office issued a travel warning which resulted in tour operators pulling out of the country. Air charter arrivals dropped in one year from 45,733 to 8,363 and there were around 10,000 jobs lost in hotels and restaurants. Overall, tourism contracted by 60 per cent and the economy shrank by 6.2 per cent (Thompson, O Hare and Evans, 1995). Other examples where tension is affecting the tourism economy are Indonesia, various East African States and Tunisia. EU legislation that requires European tour operators to assume responsibility for the quality of the tourism product has made the operators more sensitive to security issues in destinations.

The key global air traffic routes are between developed countries, the transatlantic route between Europe and the United States accounting for about a quarter of all global air traffic. While a number of developing countries have their own airlines, the large majority rely on major international airlines for tourist arrivals. For developing countries, which are often excluded from the regular international flights served by major airlines, charter flights can be an alternative to ensure an adequate and frequent supply of aeroplanes at competitive prices. The operation of charter services is highly dependent on the volume of passengers carried to a destination, being viable only when a critical mass of tourists is reached (normally a minimum of 400,000 passengers per year, Meyer, 2004, p. 20). Thus they are likely to operate to destinations with high tourist demand. The traditional charter destinations are the Caribbean, Mexico, North Africa, Thailand, Kenya, Maldives and Seychelles. New charter routes have been opened to destinations in Asia (in particular China) and Africa (e.g. South Africa).

As in other tourist activities, developing countries face many constraints in the international air transportation markets, which can affect the competitiveness of their tourism products. Air transportation, as noted earlier, is often the largest component, in value, of the tourism product. With few exceptions such as Singapore and Thailand, national airlines of developing countries tend to be weak and have small fleets. Their routes, traffic, landing and other rights are still typically set in bilateral air service agreements negotiated between governments. The bargaining power of their governments to open new routes, secure favourable schedules and convenient take-off and landing slots is weak. Most developing countries are still reluctant to enter into open sky agreements. In countries relying on major international airlines for tourist arrivals, traffic can be monopolized by one airline (on the basis of an air service agreement) resulting in its being able to set unreasonably high air fares and consequently reducing tourist demand in the home country of the airline (while air fares to other similar destinations can be much cheaper). In addition, the quality of airport infrastructure, high landing fees and other charges can deter airlines from flying to a country. Charter airlines in Europe are often operated by tour operators from the same country, thus giving them additional power to control the direction of tourist traffic, airline seat availability and prices of the two largest components of the tourism product – air fares and accommodation – and thus the price of almost the entire tourism package. But these are neither FDI nor TNC issues. As noted earlier, FDI in air transportation is very small and is still the exception rather than the rule.

A.3. Global distribution systems

Global information and distribution systems (GDSs), and increasingly the Internet, are key networks in the international tourism infrastructure, as they bring buyers and suppliers of tourism products into *direct* contact. They not only facilitate transactions in tourism services but also provide information on prices, services and destinations, making the international tourism market more transparent. Tourists can now go online to determine the price and availability of services of their preferred destinations and compare them with other destinations in minutes. They can also take virtual tours of hotels or resorts as well as natural attractions. Information technology has reduced airline booking costs, increased the productivity of travel agents and facilitated direct access of tourism service suppliers (e.g. hotels) to customers.

Computer reservation systems (CRSs) were developed by large airlines in the 1970s and were subsequently transformed into global distribution systems (GDS) to provide many tourist and information services. These include issuance of tickets, marketing or sale of products and services, as well as land services such as package tours, hotels and vehicle rentals. These links together through strategic alliances and partnerships (UNCTAD 1998).

Connection to a global network is crucial for reaching a larger market and bypassing intermediaries. For an individual service supplier, such as a hotel, it is an alternative to tour operators as a way of being selected by travel agents or individual bookers from tourism-generating countries. CRS and GDS have become the backbone of world information networks for tourism. They are a convenient and trusted "one-stop" point for intermediaries and consumers in generating countries, and a necessary means for suppliers of tourist services to reach wider markets. The advantage of using computer reservation systems is that, unlike many other tourism-related services, a physical presence is not required, as they supply services on a cross-border basis.

Four major GDS companies have emerged from a series of M&As: Amadeus and Galileo in Europe, and Sabre and WorldSpan in the United States (WTO/OMT, 2002). While Amadeus and WorldSpan are still majority-owned by airlines, Sabre became a separate legal entity of AMR (parent company of American Airlines) and Galileo has been owned by Cendant since 2001. GDSs charge companies, other than those that own them, a fee for booking services. Nowadays, not only airlines, but also tour operators, travel agents and car rental companies are linked to such systems. For example, in 2002, Galileo had links to 116 countries, served travel agents in 45,000 locations and supplied information on 500 airlines, 227 hotel companies, 33 car rental companies and 368 tour operators worldwide (Meyer, 2004, p. 18).

GDSs can constitute a barrier to market entry for suppliers of tourism products not linked to the GDS-owning airline companies, especially for developing countries, the majority of which have not been involved in the development of GDSs (East Asian countries involvement in the development of Abacus is an exception). While a number of airlines from developing countries subscribe to GDSs, participation of other tourist service suppliers, in particular SMEs, is often non-existent. In general, countries not yet seen as attractive tourist destinations, or whose tourism sector is underdeveloped (particularly in Africa and South Asia), tend to be extremely poorly represented in GDSs. This implies that access to information on their tourism products is not directly available, and they are highly dependent on intermediaries, notably tour operators.

But with the Internet this is changing. First, new actors, virtual travel agents, have emerged. GDSs have responded by introducing multi-channel distribution strategies by establishing links with these agents and thus allowing consumers direct access to them. For example, Sabre has introduced Travelocity, Galileo has acquired Trip Com, and Amadeus has stakes in Opodo and E-travel. In addition, new actors with a background in communication services have entered the scene. Microsoft, for example, has created Expedia, which, together with Travelocity, are the largest online travel agents covering more than 50 per cent of the online market. The new virtual agents use existing platforms of GDSs (i.e. Expedia is connected to Wordspan and Travelocity is connected to Sabre). These agents therefore continue the role of the traditional travel agents, rather than substituting the GDSs.

Today, the Internet provides an alternative means to GDS and tour operators for accessing tourist markets and promoting tourism. It therefore opens up significant opportunities for developing countries. Tourism service suppliers in developing countries, which used to deal with intermediaries, are increasingly reaching consumers in generating countries directly, reducing or even cutting out the reliance on (and costs of) intermediaries. Individual service providers try to bypass GDSs by creating their own portals that are not connected to a GDS.

Indeed, more travel products are now sold over the Internet than any other product, although online travel sales are still a very small share of the total travel market (1.2 per cent in 2000).[4] Nevertheless, they are growing very rapidly, at an estimated annual rate of 80 per cent since 2000 (Marcussen 2001). Nearly 37 million of America s more than 162 million active Internet users have already purchased travel online. In 2001 online travel bookings exceeded $23 billion and were expected to reach $63 billion by 2005. The value of online travel bookings in the United Kingdom was approximately £455 million in 2000 (Marcussen 2001).

The use of Internet bookings for tourism from developed-country tourists to developing-country hosts is still in its infancy. In the seven countries studied for this report, it was found that direct booking through the Internet was still limited, although potential tourists use it extensively to obtain information about a country, region and even a hotel. Developing countries differ in the level of information that is offered to the potential tourist. In Bhutan, for example, the Government-sponsored tourism Internet portal lists a large number of local tour operators, many of whom have web-based links. In interviews, however, even the largest tour operators confirmed that only a very small percentage of their business was conducted directly with tourists through the Internet, and many of these were already familiar with the country, having visited previously.

[4] Of the total sales, 60 per cent were for air travel, 18 per cent for package tours, 17 per cent for hotels and 5 per cent for other services.

Annex B

Tables and figures

Annex table B.1. Outward FDI stocks in tourism-related activities and share in total outward FDI stocks, selected OECD countries, 1995-2003

		1995	2000	2002	2003		% of total OFDI stocks*
		$m	$m	$m	$m		%
Australia		**0.0**	**0.0**	**14.7**	**6.8**		**0.01**
	Hotels and restaurants			14.7	6.8		
	Water transport						
	Air transport						
	Travel agents/TOs						
Austria		**147.6**	**222.4**	**123.5**	**161.1**		**0.27**
	Hotels and restaurants	147.6	214.8	80.2	161.1		
	Water transport		0.2	27.9			
	Air transport		7.4	15.4			
	Travel agents/TOs						
Canada		**4 859.4**	**7 321.0**	**8 009.6**	**8 701.6**		**2.83**
	Hotels and restaurants	4 859.4	7 321.0	8 009.6	8 701.6		
	Water transport						
	Air transport						
	Travel agents/TOs						
Finland		**177.4**	**724.4**	**840.8**			**0.00**
	Hotels and restaurants						
	Water transport	177.4	724.4	840.8			
	Air transport						
	Travel agents/TOs						
France		**5 175.9**	**4 150.0**	**6 278.3**	**6 918.7**		**1.08**
	Hotels and restaurants	4 707.1	3 952.8	4 787.1	6 387.0		
	Water transport	219.9	61.4	1 190.2	223.6		
	Air transport	248.9	135.9	301.0	308.2		
	Travel agents/TOs						
Germany		**264.4**	**191.7**	**237.0**	**203.3**		**0.03**
	Hotels and restaurants	264.4	191.7	237.0	203.3		
	Water transport						
	Air transport						
	Travel agents/TOs						
Portugal			**275.6**	**99.6**	**132.7**		**0.34**
	Hotels and restaurants		84.4	91.3	121.4		
	Water transport		161.3	4.5	6.5		
	Air transport		29.9	3.8	4.8		
	Travel agents/TOs						
United Kingdom		**13 574.9**	**10 142.5**	**40 804.4**	**37 773.2**	**34 404.0**	**2.50**
	Hotels and restaurants	13 574.9	10 142.5	40 804.4	37 773.2	34 404.0	
	Water transport						
	Air transport						
	Travel agents/TOs						
United States		**10 417.0**	**21 358.0**	**25 493.0**	**27 572.0**	**29 173.0**	**1.45**
	Hotels and restaurants	6 636.0	17 474.0	21 085.0	21 652.0	22 327.0	
	Water transport	3 335.0	3 171.0	3 419.0	4 759.0	5 416.0	
	Air transport	477.0	394.0	995.0	1 141.0	1 387.0	
	Travel agents/TOs	-31.0	319.0	-6.0	20.0	43.0	

Source: UNCTAD FDI/TNCs database (2006).

Annex table B.2. Tourism-related outward FDI stocks and their share in total outward FDI, selected developing countries, 2000-2004

		2000	2002	2003	2004	Share of tourism-related FDI in total OFDI stocks
			($ million)			%
Brazil			**179**	**141**		
	Hotels/restaurants		7	14		**0.3**
	Water transport		162	117		
	Air transport		9	10		
	Travel agents					
Croatia		**25.0**	**0.0**	**0.0**	**0.0**	**2.9**
	Hotels/restaurants					
	Water transport	25.0				
	Air transport					
	Travel agents					
Cyprus		**0.0**	**157.8**	**0.0**	**0.0**	**12.8**
	Hotels/restaurants		102.5			
	Water transport		39.6			
	Air transport		15.7			
	Travel agents					
Czech Republic		**3.3**	**14.2**	**105.9**	**0.0**	**6.1**
	Hotels/restaurants	-1.7	14.2	105.9		
	Water transport	5.0				
	Air transport					
	Travel agents					
Estonia		**0.0**	**4.4**	**0.0**	**0.0**	**0.6**
	Hotels/restaurants		4.4			
	Water transport					
	Air transport					
	Travel agents					
Hong Kong (China)		**8469.5**	**6416.1**	**5445.2**	**6762.3**	**1.7**
	Hotels/restaurants	8469.5	6416.1	5445.2	6762.3	
	Water transport					
	Air transport					
	Travel agents					
Hungary		**19.1**	**43.9**	**51.9**	**86.1**	**1.9**
	Hotels/restaurants	19.1	43.9	51.9	86.1	
	Water transport					
	Air transport					
	Travel agents					
Kazakhstan		**0.0**	**2.6**	**0.0**	**0.0**	**0.6**
	Hotels/restaurants					
	Water transport					
	Air transport		2.6			
	Travel agents					
Poland		**0.9**				**0.1**
	Hotels/restaurants	0.9				
	Water transport					
	Air transport					
	Travel agents					
Slovenia		**24.8**	**22.0**			**1.5**
	Hotels/restaurants	0.3	0.3			
	Water transport	24.5	21.2			
	Air transport		0.5			
	Travel agents					
Turkey		**93.0**	**93.0**	**94.0**		**1.7**
	Hotels/restaurants	93.0	93.0	94.0		
	Water transport					
	Air transport					
	Travel agents					

Source: UNCTAD FDI/TNC database (at June 2006).
* Note: using data for most recent years tourism FDI and OFDI for each country.

Annex table B.3. Inward FDI stocks in tourism-related activities and their share in total inward FDI stocks, selected developed countries, 1992-2003

					Total IFDI stock	TFDI as % total inward FDI
Australia	**1992**	**2000**	**2002**	**2003**		
			($ million)			**%**
	1 498.4	1 605.5	1 899.0	3 072.0	**174 240.00**	**1.8**
Hotels/restaurants	1 498.4	1 605.5	1 899.0	3 072.0		
Water transport	-	-	-	-		
Air transport	-	-	-	-		
Travel agencies/TOs.	-	-	-	-		
Austria	**1990**	**2000**	**2002**	**2003**		
	192.7	300.5	252.4	228.6	**60 100.00**	**0.4**
Hotels/restaurants	192.7	241.0	251.7	228.6		
Water transport	-	-	-	-		
Air transport	-	59.5	0.7	-		
Travel agencies/TOs.	-	-	-	-		
Canada		**2000**	**2002**	**2003**		
		2 876.3	2 907.7	3 831.6	**275 779.00**	**1.4**
Hotels/restaurants		2 876.3	2 907.7	3 831.6		
Water transport		-	-	-		
Air transport		-	-	-		
Travel agencies/TOs.		-	-	-		
France	**1990**	**2000**	**2002**	**2003**		
	493.3	672.8	1 688.3	1 168.3	**433 521.00**	**0.3**
Hotels/restaurants	394.4	687.6	660.7	631.5		
Water transport	85.4	55.8	1 003.6	454.7		
Air transport	13.5	-70.7	24.1	82.1		
Travel agencies/TOs.	-	-	-	-		
Germany	**1990**	**2000**	**2002**	**2003**		
	630.5	974.2	1 555.2	1 759.4	**544 604.00**	**0.3**
Hotels/restaurants	630.5	974.2	1 555.2	1 759.4		
Water transport	-	-	-	-		
Air transport	-	-	-	-		
Travel agencies/TOs.	-	-	-	-		
Portugal	**1995**	**2000**	**2002**	**2003**		
	293.8	940.5	495.9	751.4	**53 525.00**	**1.4**
Hotels/restaurants	264.6	933.4	445.2	557.0		
Water transport	28.9	-	-	1.2		
Air transport	0.3	7.1	50.7	193.2		
Travel agencies/TOs.	-	-	-	-		
United Kingdom	**1995**	**2000**	**2002**	**2004**		
	3 955.6	6 250.8	6 058.8	9 546.9	**672 015.00**	**1.4**
Hotels/restaurants	3 955.6	6 250.8	6 058.8	9 546.9		
Water transport	-	-	-	-		
Air transport	-	-	-	-		
Travel agencies/TOs.	-	-	-	-		
United States	**1990**	**2000**	**2002**	**2004**		
	12 91.0	23 516.0	30 248.0	24 421.0	**1 553 955.00**	**1.6**
Hotels/restaurants	12 22.0	22 230.0	29 382.0	23 379.0		
Water transport	83.0	438.0	125.0	690.0		
Air transport	-355.0	42.0	-27.0	69.0		
Travel agencies/TOs.	243.0	806.0	768.0	283.0		

Source: UNCTAD FDI/TNC database (at June 2006).

Annex table B.4. Inward FDI stocks in tourism-related activities and their share of total inward FDI stocks, selected developing countries, 2000-2003

					Total IFDI*	TIFDI as % IFDI
Armenia		**2000**	**2002**	**2003**		
					($ million)	**%**
	%Total	20	23	25	**840**	**2.9**
	Hotels/restaurants	20	23	25		
	Water transport	0	0	0		
	Air transport	0	0	0		
	Travel agencies/TOs	0	0	0		
Botswana		**1997**	**2002**	**2003**		
	Total	12	24	35	**1 080**	**3.2**
	Hotels/restaurants	12	24	35		
	Water transport	0	0	0		
	Air transport	0	0	0		
	Travel agencies/TOs	0	0	0		
Brazil			**1995**	**2000**		
	Total		480	399	**103 015**	**0.5**
	Hotels/restaurants		364	317		
	Water transport		90	73		
	Air transport		25	10		
	Travel agencies/TOs		0	0		
Bulgaria		**2000**				
	Total	43			**2 257**	**1.9**
	Hotels/restaurants	43				
	Water transport	0				
	Air transport	0				
	Travel agencies/TOs	0				
Cambodia		**2000**				
	Total	268			**1 549**	**17.3**
	Hotels/restaurants	268				
	Water transport	0				
	Air transport	0				
	Travel agencies/TOs	0				
Croatia		**2000**	**2003**	**2004**		
	Total	114	241	338	**12 989**	**2.6**
	Hotels/restaurants	114	241	338		
	Water transport	0	0	0		
	Air transport	0	0	0		
	Travel agencies/TOs	0	0	0		
Cyprus		**2002**				
	Total	31			**4 856**	**0.6**
	Hotels/restaurants	29				
	Water transport	2				
	Air transport	0				
	Travel agencies/TOs	0				
Czech Republic		**2000**	**2002**	**2003**		
	Total	68	482	390	**41 033**	**0.9**
	Hotels/restaurants	67	450	388		
	Water transport	0	31	1		
	Air transport	0	0	1		
	Travel agencies/TOs	0	0	0		
Estonia		**2000**	**2002**	**2004**		
	Total	52	55	91	**9 530**	**1.0**
	Hotels/restaurants	52	55	91		
	Water transport	0	0	0		
	Air transport	0	0	0		
	Travel agencies/TOs	0	0	0		
Hong Kong, China		**2000**	**2002**	**2004**		
	Total	6102	5522	4578	**456 833**	**1.0**
	Hotels/restaurants	6102	5522	4578		
	Water transport	0	0	0		
	Air transport	0	0	0		
	Travel agencies/TOs	0	0	0		
Hungary		**2000**	**2002**	**2004**		
	Total	254	349	445	**60 328**	**0.7**
	Hotels/restaurants	254	349	445		
	Water transport	0	0	0		
	Air transport	0	0	0		

	Travel agencies/TOs	0	0	0		
Kazakhstan		**2002**				
	Total	74			**15 464**	**0.5**
	Hotels/restaurants	65				
	Water transport	0				
	Air transport	8				
	Travel agencies/TOs	0				
Latvia		**2000**	**2002**	**2004**		
	Total	52	51	77	**4 493**	**1.7**
	Hotels/restaurants	36	39	57		
	Water transport	0	0	9		
	Air transport	16	12	11		
	Travel agencies/TOs	0	0	0		
Lithuania		**2000**				
	Total	54			**2 334**	**2.3**
	Hotels/restaurants	54				
	Water transport	0				
	Air transport	0				
	Travel agencies/TOs	0				
Macau		**2002**	**2004**			
	Total	135	180		**4 195**	**4.3**
	Hotels/restaurants	135	180			
	Water transport	0	0			
	Air transport	0	0			
	Travel agencies/TOs	0	0			
Madagascar		**2002**	**2004**			
	Total		1		**513**	**0.1**
	Hotels/restaurants	0	1			
	Water transport	0	0			
	Air transport	0	0			
	Travel agencies/TOs	0	0			
Morocco		**2002**	**2004**			
	Total	404	659		**17 959**	**3.7**
	Hotels/restaurants	0	0			
	Water transport	0	0			
	Air transport	0	0			
	Travel agencies/TOs	404	659			
Paraguay		**2000**				
	Total	40			**1 325**	**3.0**
	Hotels/restaurants	24				
	Water transport	0				
	Air transport	15				
	Travel agencies/TOs	0				
Peru		**1990**	**2000**	**2002**		
	Total	10	58	58	**12 460**	**0.5**
	Hotels/restaurants	10	58	58		
	Water transport	0	0	0		
	Air transport	0	0	0		
	Travel agencies/TOs	0	0	0		
Philippines			**2000**	**2002**		
	Total		40	45	**11 148**	**0.4**
	Hotels/restaurants		2	3		
	Water transport		1	6		
	Air transport		34	34		
	Travel agencies/TOs		2	2		
Republic of Korea		**1990**	**2000**	**2002**		
	Total	1158	1725	1736	**43 713**	**4.0**
	Hotels/restaurants	1158	1725	1736		
	Water transport	0	0	0		
	Air transport	0	0	0		
	Travel agencies/TOs	0	0	0		
Saudi Arabia		**2000**	**2005**			
	Total	108	144			
	Hotels/restaurants	108	144			
	Water transport	0	0			
	Air transport	0	0			
	Travel agencies/TOs	0	0			

Slovakia		**2000**				
	Total	28			**3 738**	**0.7**
	Hotels/restaurants	28				
	Water transport	0				
	Air transport	0				
	Travel agencies/TOs	0				
Slovenia		**2000**	**2002**			
	Total	18	18		**4 109**	**0.4**
	Hotels/restaurants	17	18			
	Water transport	0	0			
	Air transport	0	1			
	Travel agencies/TOs	0	0			
Syrian Arab Republic		**2003**				
	Total					
	Hotels/restaurants	201				
	Water transport	0				
	Air transport	0				
	Travel agencies/TOs	0				
Thailand		**2002**	**2003**	**2004**		
	Total	215	280	268	**48 598**	**0.6**
	Hotels/restaurants	215	280	268		
	Water transport	0	0	0		
	Air transport	0	0	0		
	Travel agencies/TOs	0	0	0		
Turkey		**2000**	**2002**	**2004**		
	Total	224	130	195	**35 188**	**0.6**
	Hotels/restaurants	224	130	195		
	Water transport	0	0	0		
	Air transport	0	0	0		
	Travel agencies/TOs	0	0	0		
Ukraine		**2002**	**2004**			
	Total	163	258		**9 217**	**2.8**
	Hotels/restaurants	163	258			
	Water transport	0	0			
	Air transport	0	0			
	Travel agencies/TOs	0	0			
Viet Nam		**1995**	**2000**	**2002**		
	Total	943	2139	2229	**17 124**	**13.0**
	Hotels/restaurants	943	2139	2229		
	Water transport	0	0	0		
	Air transport	0	0	0		
	Travel agencies/TOs	0	0	0		
Zambia		**2000**	**2001**			
	Total	19	45		**2 088**	**2.1**
	Hotels/restaurants	19	45			
	Water transport	0	0			
	Air transport	0	0			
	Travel agencies/TOs	0	0			

Source: UNCTAD FDI/TNCs database (at June 2006)

Note: * data for more recent year given.

Annex table B.5. The 20 largest cross-border M&A deals in tourism, 1987-2005

Transaction value	Year	Target industry	Ultimate target nation	Ultimate acquiring nation	Privatization
5 537.0	2003	Cruise ships	United Kingdom	United States	no
1 972.0	2005	Cruise ships	United Kingdom	Germany	no
1 066.8	2005	e-booking agent	United Kingdom	United States	no
2 730.0	2000	Tour operators	United Kingdom	Germany	No
2 300.0	1990	Hotels and motels	United States	France	No
2 269.4	1988	Hotels and motels	United Kingdom	Japan	No
1 835.0	1999	Local bus charter service	United States	United Kingdom	No
1 342.1	1996	Non-residential building construction, nec	United Kingdom	Norway	No
1 193.4	1998	Air transportation, non-scheduled	Germany	Switzerland	No
1 144.5	2001	Eating places	United States	France	No
1 139.5	1995	Eating places	United Kingdom	France	No
1 128.0	1999	Hotels and motels	United States	France	No
1 011.1	1997	Local passenger transportation,	United States	Canada	No
940.0	1999	Intercity and rural bus transportation	United States	United Kingdom	No
907.6	1997	Hotels and motels	Hong Kong (China)	United States	No
884.0	2000	Air transportation, scheduled	United Kingdom	Singapore	No
883.2	1998	Hotels and motels	United Kingdom	United States	No
809.1	2005	Bus services	Spain	United Kingdom	
794.4	2001	Travel agencies	United States	Germany	No

Source: UNCTAD, cross-border M&A database (at June 2006).

Annex table B.6. No. of foreign-owned hotels by economy

Brazil	179	Azerbaijan	3
Mexico	117	Qatar	3
Egypt	94	Singapore	3
China	80	Fiji	3
Poland	78	Aruba	3
Tunisia	54	French Guiana	3
Turkey	54	Panama	3
Indonesia	49	Slovenia	3
Dominican Republic	43	Algeria	2
Cuba	37	Cameroon	2
Czech Republic	37	Ghana	2
South Africa	36	Lesotho	2
Thailand	32	Mali	2
Morocco	31	Mauritius	2
Hungary	31	Mauritania	2
Argentina	28	Mozambique	2
Slovakia	24	Nigeria	2
Croatia	24	Rwanda	2
India	23	Tanzania, United Rep. of	2
United Arab Emirates	22	Togo	2
Costa Rica	21	Kazakhstan	2
Bulgaria	20	Kuwait	2
Malaysia	17	Yemen	2
Romania	17	Lao People s Dem. Rep	2
Saudi Arabia	16	Myanmar	2
Uruguay	13	New Caledonia	2
Russia Federation	13	Guatemala	2
Korea, Republic of	12	Nicaragua	2
Cyprus	12	Paraguay	2
Jordan	11	Latvia	2
Viet Nam	11	Serbia and Montenegro	2
Colombia	11	Benin	1
Philippines	10	Burkina Faso	1
Peru	10	Burundi	1
Ecuador	8	Cape Verde	1
Venezuela	8	Chad	1
		Gabon	1
Bahrain	7	Guinea	1
Oman	7	Kenya	1
Hong Kong (China)	7	Armenia	1
Malta	7	Kyrgyzstan	1
		Syrian Arab Rep.	1
Caribbean	6	Bangladesh	1
Lithuania	6	Maldives	1
Zimbabwe	5	Pakistan	1
Cambodia	5	Vanuatu	1
Chile	5	Antigua and Barbuda	1
Jamaica	5	Belize	1
Estonia	5	Bahamas	1
Botswana	4	Bolivia	1
Côte d Ivoire	4	Guadeloupe	1
Senegal	4	Honduras	1
Lebanon	4	Netherlands Antilles	1
Puerto Rico	4	Reunion	1
Namibia	3	Trinidad	1
Reunion	3	Montenegro	1
Swaziland	3	TFYR of Macedonia	1
Zambia	3		

Memorandum item: no. of hotels by region

Total	1 476
Latin America and the Caribbean	519
South, East and South-East Asia	256
New European Union members	205
North Africa	181
West Asia	129
Southern and Sub-Saharan Africa	95
Other Central and Eastern Europe	78
Central Asia	7
Pacific	6

Source: UNCTAD survey, 2006.

Annex table B.7. France: outward FDI stocks in hotels and restaurants

	1995	2000	2003	2004
WORLD	1 164.7	3 952.8	6 018.2	5 478.4
Developed economies	662.7	3 752.7	5 794.6	5 316.3
Europe	615.8	1 973.6	2 812.7	2 969.4
European Union	575.6	1 883.3	2 733.1	2 874.0
Other developed Europe	40.2	90.3	79.6	95.3
North America	46.9	1 707.5	2 792.5	2 252.9
Other developed economies	-	71.6	189.4	94.0
Developing economies	12.0	33.5	161.7	99.4
Africa	-	-	72.0	35.4
Latin America and the Caribbean	12.0	33.5	88.4	62.7
South America	12.0	33.5	51.8	50.4
Asia and Oceania	-	-	1.3	1.4
Asia	-	-	1.3	1.4
South-East Europe and the Commonwealth of Independent States	-	-	31.6	38.1
South-east Europe	-	-	30.3	34.1
CIS	-	-	1.3	4.1
Unspecified	490.0	166.6	30.3	24.5

Annex table B.8. Tourism-related FDI inflows: Morocco and Tunisia compared
($ million and %)

	Morocco			Tunisia		
	Tourism FDI $ m	Total FDI $ m	Share in total FDI inflows (%)	Tourism FDI $ m	Total FDI $ m	Share in total FDI inflows (%)
1981	4.8	71.0	6.8			
1982	12.4	97.3	12.8			
1983	1.6	64.5	2.5			
1984	1.9	76.1	2.5			
1985	1.8	64.1	2.9			
1986	13.3	94.2	14.1			
1987	8.7	108.3	8.0			
1988	8.3	122.5	6.7			
1989	12.2	222.9	5.5			
1990	12.2	217.3	5.6			
1991	24.1	379.4	6.3			
1992	4.9	498.8	1.0			
1993	44.8	638.2	7.0			
1994	25.5	592.7	4.3	12.9	432.4	3.0
1995	10.3	492.7	2.1	21.2	258.9	8.2
1996	5.4	509.5	1.1	36.6	229.6	15.9
1997	55.0	1 432.2	3.8	17.4	357.1	4.9
1998	19.3	632.3	3.1	18.6	641.9	2.9
1999	35.2	2 143.2	1.6	28.1	369.1	7.6
2000	22.2	1 467.7	1.5	31.4	860.1	3.6
2001	40.0	3 860.9	1.0	73.5	543.0	13.5
2002	47.4	790.5	6.0	16.6	900.5	1.8
2003	38.3	2 773.8	1.4	14.2	596.3	2.4
2004	197.3	1 750.6	11.3	16.7	649.0	2.6
2005	354.4	3 251.2	10.9			

Sources: Foreign Investment and Promotion Agency, Tunisia; Morocco Investment Promotion Centre (check title).

Annex table B.9. FDI inflows Mauritius, annual averages
($ million)

	1990-1993	1994-1997	1998-2001	2002-2005
EPZ	5.6	2.7	2.7	3.8
Tourism	3.1	2.1	0.9	5.6
Banking	0.4	9.5	7.5	19.2
Telecoms	0.0	0.0	58.2	1.7
Other	2.2	6.0	9.3	27.1
Total	11.4	20.2	78.6	57.4
Share of tourism-related FDI in total inflows (%)	26.9	16.1	7.0	9.4

Source: Bank of Mauritius, Monthly Statistical Bulletin issues (June 2006.)

Note: Data for only first four months of 2006.

Annex table B.10. FDI overview of GATS tourism-related services commitments

COUNTRIES	HORIZONTAL FDI PROVISIONS (i.e. for all committed sectors)	SECTORAL FDI PROVISIONS
Morocco	None	Travel agency and tour operator services-- subject to obtaining an operating licence. Tourist guide services: Moroccan nationality required, but groups may be accompanied by tour leaders. International road passenger transport, other passenger transport (tourists): obligation to establish a company under Moroccan law.
Tunisia	Investments in services other than financial services are not limited. With respect to service activities that are not wholly export-oriented, the Investment Commission has to approve any participation exceeding 50 per cent of the equity of the company. Natural or legal persons other than Tunisian nationalities may not engage in the following activities, in any form whatsoever, unless otherwise permitted by the competent authority: building manager, commission agent, broker, commercial agent, consignee, general representative, sales representative, commercial traveller, commercial representative.	Direct insurance: Commercial presence of a foreign supplier in the form of a subsidiary company permitted under following conditions: - set up in accordance with Tunisian law; - as a public limited company or mutual society; - minimum capital requirements. Commercial presence of the foreign supplier in the form of a branch office: - work with non-residents.
Kenya	Commercial presence requires that foreign service providers incorporate or establish the business locally	Life Insurance: One third of the paid up capital must be owned by Kenyan nationals.
Tanzania, United Rep. of	None	Hotels of four stars and above: Acquisitions of domestic firms and mergers by foreigners are subject to approval. The acquisition of land by foreign or domestic companies which are deemed foreign because of foreign equity ownership is subject to approval.
Bhutan* (Provisional)	To establish a new commercial presence in Bhutan, minimum amount of foreign investment is 0.5 million. Foreign investor s equity holding is limited to 70 per cent of the equity, unless otherwise indicated in the sectoral commitments, and the business must also be incorporated in Bhutan Foreign investors are required to foster transfer of technology and management skills, and provide training and employ Bhutanese nationals at all levels of the enterprise. The shares held by foreign nationals and foreign juridical persons in locally incorporated companies are not transferable without prior permission by the Government of Bhutan.	Insurance and banking: Unbound until the Government of Bhutan determines what types of entities can conduct these services, the related laws and regulations are established. Hotels and restaurants: Establishment limited to hotels with a maximum capacity of 50 rooms in urban areas and a maximum capacity of 15 rooms in rural areas.
Nepal (2004)	The conditions of ownership, operation and juridical form and scope of activity as set out in a licence or other form of approval establishing or authorizing the operation and supply of services by an existing foreign service supplier, will not be made more restrictive than as exist as of the date of Nepal s accession to the WTO.	Convention Services: Only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. Hotel, lodging services (star hotels only); graded restaurants, travel agency and tour operators: Only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent for travel agencies and tour operators (CPC 7471) and 80 per cent for hotel, lodging

		services (CPC 6411) (star hotels only) and graded restaurants. Maintenance and repair of aircraft, computer reservation system: Only through incorporation in Nepal and with maximum foreign equity capital of 51 per cent. Foreign equity participation will be increased to 80 per cent after 5 years from the date of accession.
Dominican Republic	Annual profits generated by foreign capital that have been duly registered with the Central Bank may be remitted abroad up to an amount equivalent to 25 per cent of the registered capital. Registration of foreign investment is restricted by the following provisions should not exceed 29 per cent of the equity in: -internal land transport, except where directly related to import and export; - internal air transport, maritime transport, and cabotage and international maritime transport. All foreign companies must recruit a minimum of 80 per cent of Dominican employees. In special circumstances, employment of more foreigners may be authorized if hard or impossible to replace them by Dominicans, and with the obligation of the company to train Dominican staff.	Insurance (including reinsurance) and pension fund services, except compulsory social security services: Foreign equity participation up to 49 per cent of capital permitted.
Sri Lanka	Foreign investment of up to 40 per cent of equity in a company proposing to conduct a business activity listed below, other than those listed above, will be automatically approved by the BOISL. Foreign investment in excess of 40 per cent (and up to 100 per cent) in a company proposing to conduct a business activity listed below other than those listed above will be approved by the BOISL on a case-by-case basis in consultation with the relevant State agencies. This will be reviewed every two years with the aim of further simplification. The relevant sectors are the following: (i) construction and residential buildings; (ii) mass transportation; (iii) telecommunications; (iv) mass communications; (v) education; (vi) professional services; (vii) freight-forwarding; (viii) travel agencies; (ix) shipping agencies. Joint venture: In relevant sectors, when a joint-venture partner is a public sector enterprise or a government undertaking, while granting access, preference will be given to foreign service suppliers/entities, which offer the best terms for transfer of technology.	Banking and other financial services (excluding insurance): The total foreign shareholding in any institution providing financial services is limited to 49 per cent of the issued share capital.

*Accession candidate to WTO.

Annex table B.11. TSA cluster of tourism services – overview of GATS commitments

	SUB-SECTORS																													
COUNTRIES	1.D.b	1.E.a	1.E.b	1.E.c	1.E.d	1.F.f	1.F.g	1.F.s	7.A.a.01	7.A.a.02	7.B.b	7.B.f.02	9.A	9.B	9.C	9.D	10.A	10.D	11.A.a	11.A.c	11.A.d	11.A.f	11.C.d	11.C.e	11.E.a	11.F.a	11.F.c	11.F.d	11.F.e	11.H.d
Morocco									X	X	X	X	X	X	X	X							X	X		X				
Tunisia									X	X	X	X	X	X																
Kenya									X	X	X		X	X	X								X	X		X	X	X	X	
Tanzania													X																	
Bhutan*								P		P	P		P																	
Nepal (2004)								X	X	X	X	X	X	X									X	X						
Dominican Republic				X		X	X		X	X	X		X	X	X		X													
Sri Lanka									X	X	X	X	X	X																
Botswana	X												X	X																
Cape Verde*	P			P	P	P	P	P	P	P	P		P	P	P			P	P	P		P								
China (2001)	X	X	X	X	X	X	X	X	X	X	X	X	X	X					X				X	X				X		X
India										X	X	X	X	X																
Jamaica	X								X	X			X	X			X									X				
Maldives																														
Mauritius									X	X	X	X	X	X	X	X														
South Africa	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X					X	X					X		X		
Turkey						X			X	X	X	X	X	X					X				X	X	X	X				

*Accession candidate to WTO. **Note:** "X" indicates a GATS commitment has been made, but does not necessarily mean full liberalization of the subsector has been guaranteed.

"P" = Provisional commitment.

TSA Classifications, based on WTO documents MTN.GNS/W/120, 10 July 1991; S/CSS/W/19, 5 December 2000 and S/CSS/W/107, 26 September 2001.

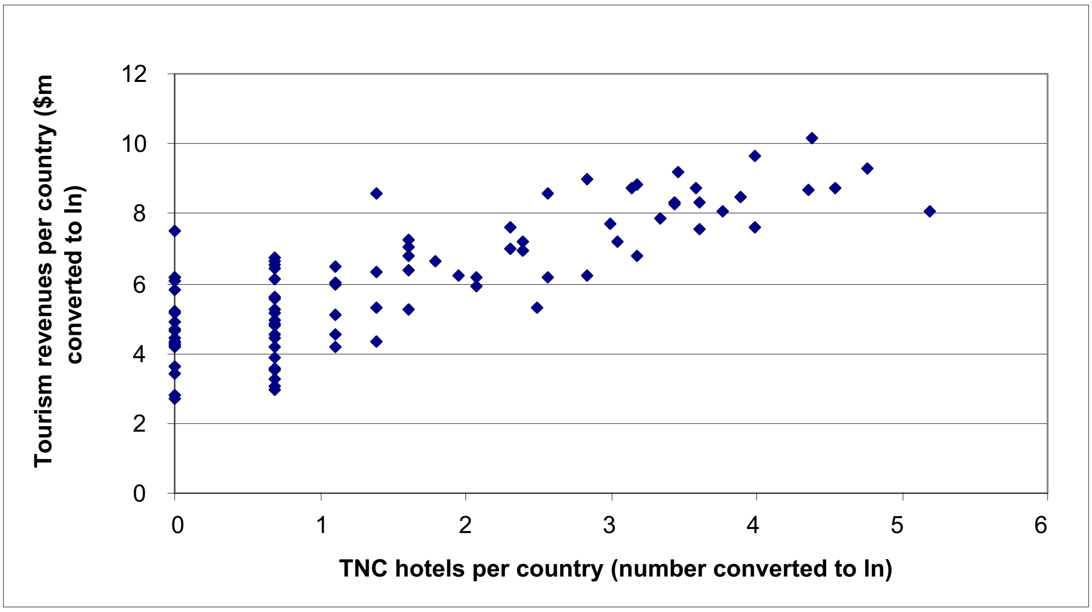
Legend:

1.D.b	Business services: real estate services, on a fee or contract basis
1.E.a	Business services: rental/leasing services without operators (relating to ships)
1.E.b	Business services: rental/leasing services without operators (relating to aircraft)
1.E.c	Business services: rental/leasing services without operators (relating to other transport equipment)
1.E.d	Business services: rental/leasing services without operators (relating to other machinery and equipment)
1.F.f	Business services: other business services (services incidental to agriculture, hunting and forestry)
1.F.g	Business services: other business services (services incidental to fisheries)
1.F.s	Business services: other business services (convention services)
7.A.a.01	Financial services: all insurance and insurance related services (life, accident and health insurance services)
7.A.a.02	Financial services: all insurance and insurance related services (non-life insurance-related services)
7.B.b	Financial services: banking and other financial services (lending of all types, incl., inter alia, consumer credit, mortgage credit, factoring and financing of commercial transactions)
7.B.f.02	Financial services: banking and other financial services (trading for own account or for account of customers...: foreign exchange)
9.A	Tourism and travel-related services: hotels and restaurants (incl. catering)
9.B	Tourism and travel-related services: travel agencies and tour operator service
9.C	Tourism and travel-related services: tourist guides services
9.D	Tourism and travel-related services: other
10.A	Recreational, cultural and sporting services: entertainment services
10.D	Recreational, cultural and sporting services: sporting services
11.A.a	Transport services: maritime transport services: passenger transportation
11.A.c	Transport services: maritime transport services: rental of vessels with crew
11.A.d	Transport services: maritime transport services: maintenance and repair of vessels
11.A.f	Transport services: maritime transport services: supporting services for maritime transport
11.C.d	Transport services: air transport services: maintenance and repair of aircraft
11.C.e	Transport services: air transport services: supporting services for air transport
11.E.a	Transport services: rail transport services: passenger transportation
11.F.a	Transport services: road transport services: passenger transportations
11.F.c	Transport services: road transport services: rental of commercial vehicles with operators
11.F.d	Transport services: road transport services: maintenance and repair of road transport equipment
11.F.e	Transport services: road transport services: supporting services for road transport services
11.H.d	Transport services: services auxiliary to all modes of transport: other

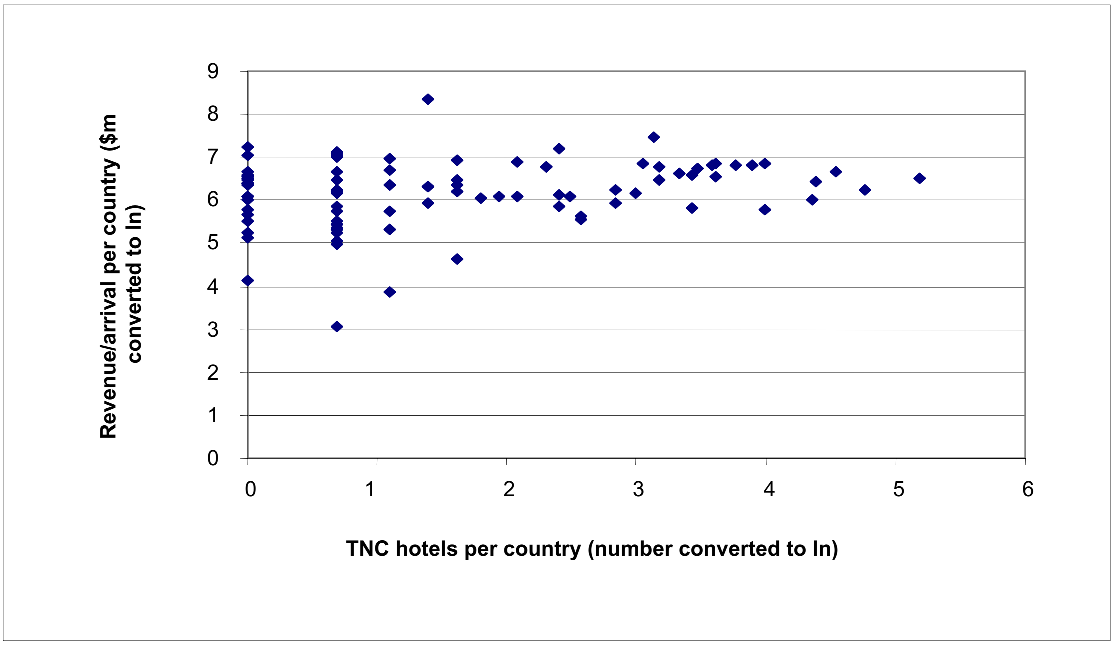
Sectors listed in the cluster where there are no commitments:

10.b	Recreational, cultural and sporting services: libraries, archives, museums and other cultural services
11.b.a	Transport services: internal waterways transport: passenger transportation
11.b.c	Transport services: internal waterways transport: rental of vessels with crew
11.c.a	Transport services: air transport services: passenger transportation
11.c.c	Transport services: air transport services: rental of aircraft with crew
11.e.e	Transport services: rail transport services: supporting services for rail transport services
11.i	Transport services: other transport services

Annex figure B.1. Number of TNC hotels and tourism revenues by country, 2004-2006

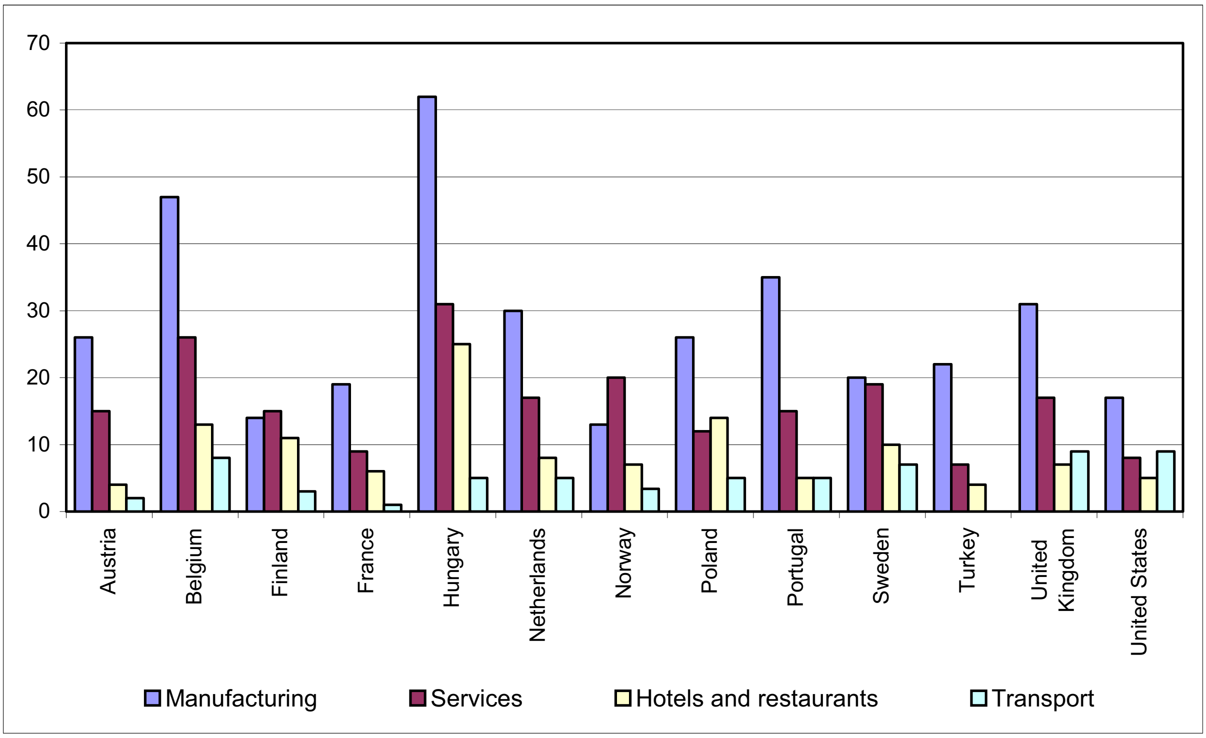


Annex figure B.2. Number of TNCs by country and revenue per arrival by country



Source: UNCTAD global survey of TNC hotel groups with at least one hotel in a developing country.

Annex figure B.3. Share of foreign affiliates in sales in selected OECD countries: manufacturing, services, hotels and restaurants and transport compared



Annex C

Compositions of regional groups used in the UNCTAD survey of global tourism chains

North Africa
Algeria, Egypt, Libyan Arab Jamahiriya, Morocco, Sudan, Tunisia

Southern and sub-Saharan Africa
Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Côte d Ivoire, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Reunion, Rwanda, Sao Tomé and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Swaziland, Togo, Uganda, United Republic of Tanzania, Zambia, Zimbabwe.

Central Asia
Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan

West Asia
Bahrain, Cyprus, Islamic Republic of Iran, Iraq, Jordan, Kuwait, Lebanon, Oman, Occupied Palestinian territories, Qatar, Saudi Arabia, Syrian Arab Republic, Turkey, United Arab Emirates, Yemen.

South, East and South-East Asia
Afghanistan, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Hong Kong (China), India, Indonesia, Korea Democratic People s Republic of, Korea Republic of, Lao People s Democratic Republic, Macao (China), Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan Province of China, Thailand, Viet Nam.

Pacific
Fiji, Kiribati, New Caledonia, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

Latin America and the Caribbean
Anguilla, Antigua and Barbuda, Argentina, Aruba, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Cayman Islands, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Falkland Islands, French Guiana, Grenada, Guadeloupe, Guatemala, Guyana, Haiti, Honduras, Jamaica, Martinique, Mexico, Montserrat, Netherlands Antilles, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Saint Kitts and Nevis, Suriname, Saint Lucia, Saint Pierre and Miquelon, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, Venezuela, Virgin Islands.

New European Union members
Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia.

Central and Eastern Europe
Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Republic of Moldova, Romania, Russian Federation, Serbia and Montenegro, TFYR Macedonia, Ukraine

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