THE CONTRIBUTION OF FOREIGN DIRECT INVESTMENTS TO THE DEVELOPMENT AND COMPETITIVENESS OF THE TOURISM INDUSTRY: TOWARD A SUSTAINABLE GROWTH

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Abstract

Foreign direct investments (FDI) today are one of the major engines of growth and competitiveness in tourism (World Travel and Tourism Council [WTTC], 2024; Bhatt et al., 2024). The current study addresses the multifaceted contribution of FDI to this sector, delineating its potential role in transforming infrastructure development, enhancement in the quality of services, and integrating newer innovative practices within the sector. This paper will draw from empirical studies and theoretical perspectives on the contribution of FDI to the development and competitiveness of the tourism industry. The paper also investigates the varied relationship that is developed between FDI and local economies, identifying both the opportunities that come with, and the challenges posed by FDI. Among others, the following questions will be explored: what effect FDI has on tourism development, tourism challenges and opportunities faced by FDI, and what role policy plays in facilitating tourism-based FDI. The findings show the importance for integrated policy approaches in aligning FDI inflows with sustainable tourism development goals and ensuring a balanced and inclusive growth path and put forward recommendations for how stakeholders can optimize the benefits of FDI while addressing its adverse impacts and develop strategies that enhance the resilience and sustainability of tourism in a highly competitive global environment.

Keywords: FDI, Contribution, Tourism, Development, Competitiveness

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1. INTRODUCTION

Tourism has grown to become one of the most dynamic and important sectors of the world economy, playing a key role in the economic development process of nations worldwide. Tourism is believed to contribute about 10% to global gross domestic product (GDP) and provides millions of jobs in various parts of the world. It is an important driver of growth, cultural exchange, and international cooperation (Efthimiou, 2025c). In this rapidly changing environment, foreign direct investments (FDI) have emerged as the linchpin for tourism industry development and competitiveness. By bringing in financial resources, technological expertise, and management skills, FDI has helped countries to develop world-class tourism infrastructure, attract international visitors, and establish themselves as competitive players in the global tourism market. FDI contributions in the tourism sector go beyond financial inflows by including such benefits as the transfer of technology, innovation, and knowledge. Large multinational corporations that invest in tourism usually possess advanced management practices, global marketing networks, and access to international supply chains that enhance the efficiency and competitiveness of host nations (Kastrati & Kastrati, 2024). In the case of developing countries, in particular, FDI is an essential tool for overcoming resource constraints, upgrading service standards, and accomplishing sustainable development (Truong et al., 2024). Countries like Mauritius, Croatia, and Thailand have utilized FDI to position themselves among the leading tourist destinations, thereby illustrating the potential of foreign investments in transforming this industry. The relationship between FDI and tourism is complex and multifaceted. While the economic benefits of FDI are widely recognized, the influx of foreign capital also presents challenges that require careful management. For instance, the growth of tourism through FDI can lead to environmental degradation, overdependence on foreign stakeholders, and commodification of local cultures (Taha et al., 2024). In many cases, the benefits of FDI are unevenly distributed, with profits repatriated to investors' home countries and local communities seeing limited gains. These dynamics, therefore, call for appropriate policy frameworks that can maximize the potential benefits of FDI while mitigating its negative impacts (Draci & Demi, 2023). As already known, everyday life, as well as the economy and tourist flows, were heavily impacted by the COVID-19 pandemic. The tourism industry is undergoing a transformation characterized by digital integration such as contactless payments, online check-ins and digital room keys are just a few examples of how travel businesses are adapting, a redefinition of the sector's perspective towards its workforce and society, domestic tourism, but also a deeper commitment to sustainability (Efthimiou, 2025b). The interplay of FDI and tourism also varies across regions, determined by conditions such as political stability, regulatory environments, and the availability of skilled labor. Whereas in developed economies, FDI is usually related to high-value innovation and tourism experiences; in developing regions, it is more related to capacity building, infrastructure development, and market access. These differing contexts bring into sharp focus a range of sensitivities and potentials that call for specific approaches toward FDI in tourism. This study aims to provide a comprehensive analysis of the contributions of FDI to the development and competitiveness of the tourism industry. It examines the theoretical foundations of FDI's role in tourism, explores its practical impacts through case studies, and identifies best practices for aligning FDI with sustainable tourism development goals.

The analysis encompasses a number of different geographic contexts, including Asia, Africa, Europe, and Small Island Developing States (SIDS), thus putting forward a wide perspective on the dynamics of FDI in tourism. Empirical evidence on the role of FDI for tourism development by using cases shows how developing countries have harnessed and not always been successful in reaping benefits. Such an analysis outlines critical factors related to governance, economic policies, and community engagement as important influences in the effectiveness of FDI. The synthesis of findings forms policy recommendations for the attainment of sustainable, inclusive, and competitive growth in the sector. The clear research question is the role of FDI in the development and competitiveness of the tourism industry toward sustainable growth and how FDI can influence the trends of the tourism sector. By addressing these dimensions, this paper adds to the increasing literature relating FDI and tourism, therefore providing useful insights for policymakers, investors, and researchers. The paper tackles the gaps in the interaction of FDI and the tourism industry through a comparative bibliographic review of the levels and competitiveness of tourism and FDI.

The rest of this paper is structured as follows. Section 2 outlines the literature review by discussing concepts, such as the ownership, location, and internalization (OLI) paradigm and globalization, which explain the relationship between FDI and tourism. Section 3 examines the methods utilized to undertake empirical research on the questions of the study. Section 4 discusses the empirical findings. Section 5 concludes with a discussion of the study's findings, limitations, and suggestions for further research.

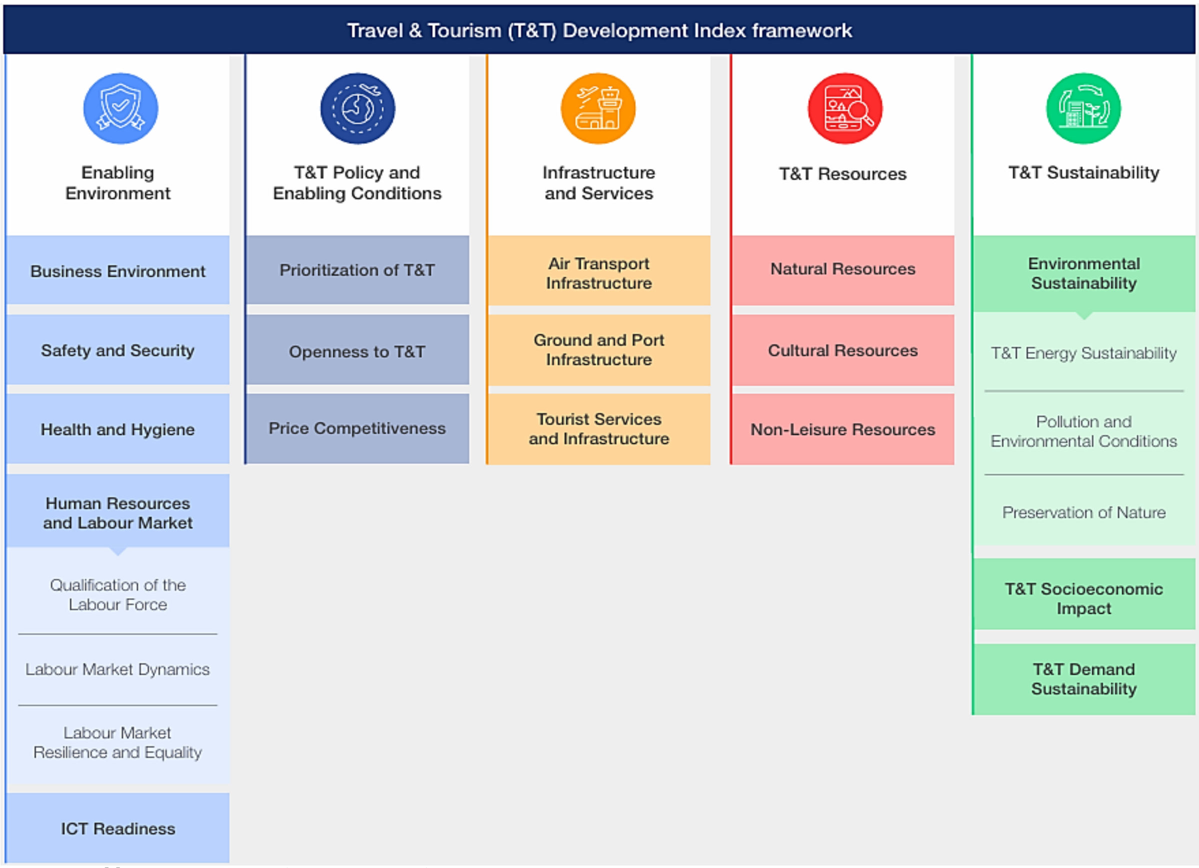
2. LITERATURE REVIEW

A variety of theoretical underpinnings exist between FDI and the tourism industry that insinuate the various mechanisms, opportunities, and challenges FDI may have while attempting to contribute to the development of tourism. Theoretical frameworks underlying the interplay of FDI with the tourism sector explain not only the channels in which investment propels tourism but also the broadened perspectives on economic, social, and environmental impacts. The section presents an overview of the important related theories of the eclectic paradigm, globalization, integration frameworks, tourism-led growth hypothesis, sustainability models, and institutional and policy considerations.

Various definitions of FDI have been published in the literature. The International Monetary Fund (IMF, 1977) defines FDI as follows: "Investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise" (p. 136). The main feature of FDI is the impression of either a decisive and complete or substantial control over the operation and management of a foreign entity. FDI contributes to the creation of a relationship between the country of origin and the host country through contagion effects (Efthimiou, 2024b). Also, according to the definitions of the IMF and the Organisation for Economic Co-operation and Development (OECD): "foreign direct investment reflects the objective of acquiring a lasting interest by establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor" (OECD, 2008, p. 48). The "lasting interest" implies the existence of a long-term relationship between the direct investor and the company as a direct investment and a significant degree of influence on the management of the latter (OECD, 2008). Through FDI, a relationship of dependence is determined between the new and the parent enterprise, which is two-way and reflects the relationship of dependence between the two entities. Economic approaches find that FDI has direct effects on both the host and the origin country (Efthimiou, 2025a).

Tourism is a key driver as regards growth and the creation of economy-wide positive economies of scale. It is instrumental to job creation, economic growth, and the improvement of profitability prospects, also being a growing source of income (Okafor et al., 2022). Among other interpretations, the United Nations (UN) Tourism (formerly UN World Tourism Organisation) provides the following definition of this sector: "Tourism is a social, cultural and economic phenomenon which entails the movement of people to countries or places outside their usual environment for personal or business/professional purposes. These people are called visitors (which may be either tourists or excursionists; residents or non-residents) and tourism has to do with their activities, some of which involve tourism expenditure" (World Tourism Organization [UNWTO], 2010, Chapter 1). Tourism is conducive to the creation of positive prospects as regards the reduction of unemployment, as well as to cultural and socioeconomic progress. That said, this job creation is usually associated with working conditions characterized by a certain degree of informality and low skill intensity, mainly because these jobs are seasonal and exhibit a low degree of rigour (IMF, 2021; Efthimiou, 2025b).

Figure 1. Travel and Tourism Development Index (TTDI) framework



Source: World Economic Forum (WEF, 2024, p. 8).

2.1. The eclectic paradigm (OLI framework)

In this respect, the eclectic paradigm proposed by Dunning (1988) is still a milestone for the understanding of the determinants of FDI in many industries, including tourism. The OLI framework explains the reasons why multinational enterprises (MNEs) decide to undertake direct investments instead of alternative strategies, such as licensing or exporting.

2.1.1. Ownership advantages

Ownership advantages are the proprietary resources and capabilities of MNEs that give them a competitive edge in foreign markets. These could include technological expertise, advanced managerial practices, and globally recognized branding. In tourism, these advantages come out in high-quality service delivery, global marketing reach, and innovative technologies that enhance customer experience. For example, international hotel chains leverage their established brand equity to attract travelers from around the world while assuring consistent quality across their properties (Dunning, 1988).

2.1.2. Location advantages

Location advantages highlight the importance of a host country's specific characteristics in attracting FDI. These include:

- Natural and cultural resources: Countries with rich biodiversity, unique cultural heritage, and iconic landmarks offer strong incentives for tourism-related FDI (UNCTAD, 2007).
- Infrastructure and accessibility: Well-developed transportation networks, including airports and highways, as well as reliable utilities like water and electricity, enhance a destination's attractiveness to investors (OECD, 2020b).
- Economic and political stability: Stability in governance, sound economic policies, and transparent legal frameworks further incentivize FDI in tourism (Sokhanvar, 2022).

Location advantages are equally nurtured through supportive government policies that try to make a region more attractive in some ways. Tax incentives for ecotourism projects or investment zones earmarked for resort development make the location of foreign investment more appealing.

2.1.3. Internalization advantages

Internalization explains why firms prefer direct control over operations rather than relying on intermediaries. In the tourism industry, maintaining control ensures that brand image, customer service, and operational efficiency are consistently upheld. For instance, many global tour operators often prefer owning their resorts and hotels to uphold high standards and optimize their supply chain (Florido-Benítez & Del Alcazar Martínez, 2024). Internalization also enables companies to respond promptly to changes in the market and the demands of customers. The risk of inconsistency in quality or even reputational damage associated with franchising or outsourcing is lower when operations are under direct control. This is particularly important in the context of luxury tourism, where customers' expectations are very high (Khan et al., 2020). The OLI paradigm provides a holistic lens for understanding how and for what reason FDI flows into the tourism sector, emphasizing the synergy between MNE capabilities and host country attributes.

Table 1. OLI advantages combine infrequently in tourism

Industry/activity	*Ownership advantages*	*Locational advantages*	*Internalization factors (+) encourages FDI; (-) encourages other factors*	*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 essential 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 (2007, p. 18).

2.2. Globalization and integration frameworks

Globalization has been a powerful transforming force in the tourism industry, encouraging the integration of destinations into one global market. FDI is a crucial conduit for such integration, linking local economies with international networks.

2.2.1. Economic integration and market access

Globalization has opened avenues for international investors to recognize the potential of emerging tourism markets and, subsequently, to develop infrastructure and services that are internationally acceptable. For example, low-cost airlines and global hotel chains have opened destinations for international tourism that were not accessible previously. In this respect, the integration contributes to local business enterprises, job opportunities, and regional economic development (Fauzel et al., 2017).

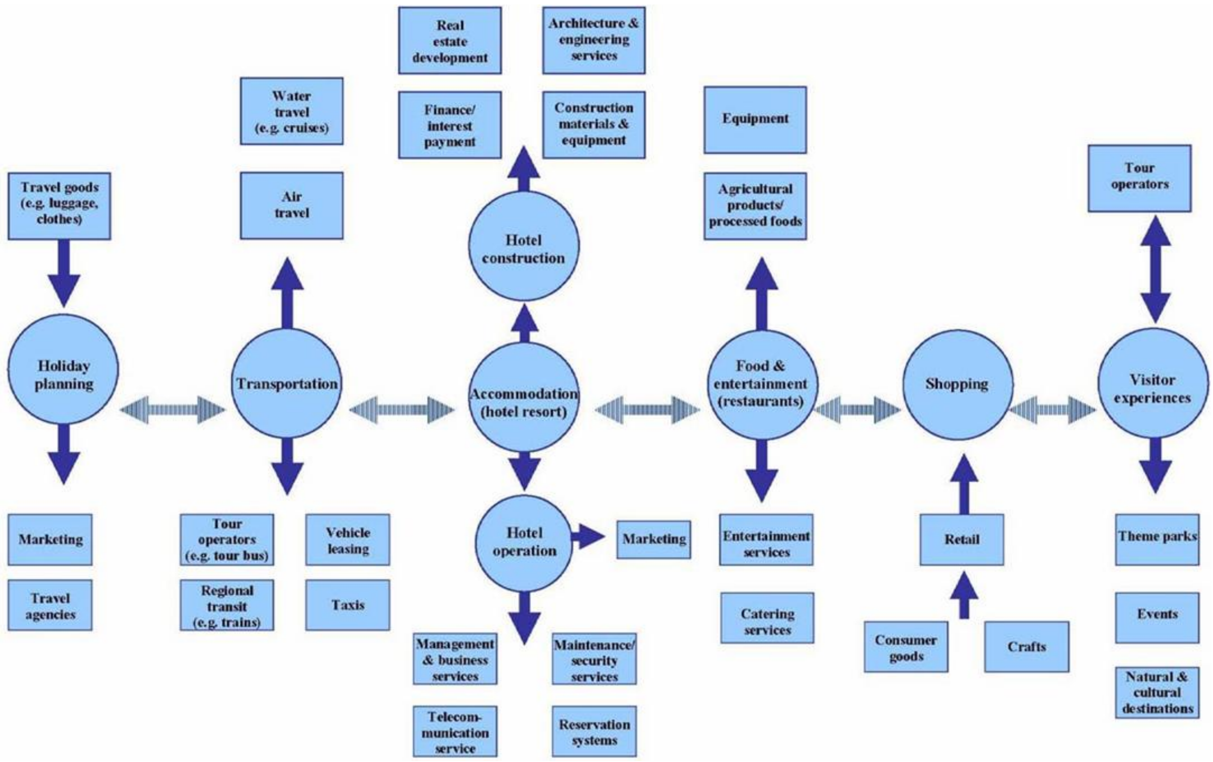
Other forms of synergies involve connecting tourism with agricultural, manufacturing, and technological links. FDI nurtures economic diversification and resilience through the integration of local companies into international value chains. For example, the increase in the utilization of local resources by international hotel chains has made the promotion of local agriculture viable enough to sustain international culinary quality (Cerovic et al., 2015).

2.2.2. Global supply chains

FDI in tourism inserts destinations into international supply chains, including marketing platforms, booking systems, and transportation networks. Multinational firms bring logistics, marketing, and operations expertise that ensure the competitiveness of destinations at a global scale (UNCTAD, 2007; World Tourism Organization & United Nations Development Programme, 2018).

Supply chain integration also allows the implementation of sustainable practices. International hotel chains can require that local supply chains adopt environmentally friendly practices. In this way, such hotels make the destination more attractive for ecotourists, while contributing to general sustainability (Cerovic et al., 2015).

Figure 2. Tourism value chain



Source: Gollub et al. (2003) as cited in UNCTAD (2007, p. 3).

2.2.3. Standardization and economies of scale

Globalization often stresses the importance of standardized service quality and economies of scale. FDI allows international firms to introduce best practices, such as advanced booking systems and sustainable operations, improving overall efficiency and customer satisfaction (Barrowclough, 2007). Economies of scale realized through FDI also allow for competitive pricing. Through global linkages, the international company will be able to have premium experiences at lower prices that appeal to a greater number of tourists. For instance, the increasing proliferation of mid-budget hotel chains in developing countries enables middle-income classes to travel across borders more easily than before (Tecel et al., 2020).

2.3. Tourism-led growth hypothesis

The tourism-led growth hypothesis represents tourism as a catalyst for economic development. FDI amplifies this effect since it speeds up infrastructure development, attracts international visitors, and provides economic linkages that help local industries.

2.3.1. Infrastructure development

FDI supports the creation of vital infrastructures like airport facilities, hotels, and recreation facilities. Tourism development attracts both domestic and foreign tourists, which, in turn, initiates growth for other sectors or industries like transport, agriculture, and retail businesses. For example, integrated resort facilities in the city-state of Singapore-foreign investors paved the way for and established it as a high luxury tourism destination (Sharma, 2004; Singh & Singh, 2016). Infrastructure investments are not always confined to physical structures. FDI in digital infrastructure, such as online booking platforms and virtual tour technologies, has transformed the way tourists interact with destinations. These innovations enhance convenience, accessibility, and customer satisfaction (WTTC, 2023; Efthimiou, 2024a).

2.3.2. Knowledge transfer and skill development

FDI ensures the transfer of knowledge and experience to the residents. Multinational companies train workers, introduce advanced technologies, and contribute to the innovative atmosphere. All these factors will positively impact the ability of the general economy to grow and become more innovative beyond the tourism industry as well (Ekanayake & Long, 2012).

Most of the skill development initiatives have been targeted at creating a pipeline of talent for the tourism industry. For example, partnerships between foreign investors and local educational institutions have resulted in the establishment of hospitality training centers. These centers impart globally relevant skills to the local workforce, thereby enhancing their employability and earning potential (Satrovic & Muslija, 2019).

2.3.3. Multiplier effects

The economic impacts of FDI in tourism are magnified by multiplier effects. Hotel investments, for example, give rise to demand for a variety of local suppliers, including food producers and craft artisans. The resulting interdependencies provide jobs and increase incomes that foster regional development (Munir & Iftikhar, 2021).

Multiplier effects also manifest in the form of increased domestic consumption. With the rise in tourism-related incomes, local populations spend more on goods and services, creating a positive feedback loop that stimulates economic activities across sectors (Xu et al., 2024).

Table 2. Possible effects of tourism

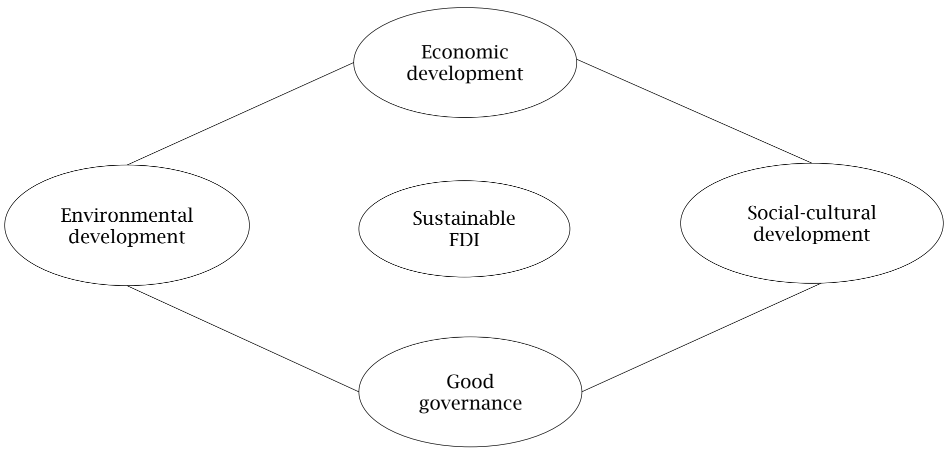
Positive effect	***Negative effect***
Increase of revenues/increase of standard of living	Big dependence on tourism
Employment possibilities	Increased costs of living — accommodation, food and services
Tourism infrastructure improvement	Pollution and traffic congestion
Increase of tax income	TNC* dominate the touristic market
Raising awareness and increasing resources for cultural and natural heritage	Harmful effects on cultural and natural heritage
Capital inflows	Sensitivity of business cycles and changes of business attitude
Transfer of professionalism and managerial skills	Little control of tourism development
Market connections	Unacceptable form and volume of development
Visible effects for local entrepreneurs	Invasion of open spaces

*Note: *TNC — Trans national companies.*
Source: UNCTAD (2010) as cited in Cerovic et al. (2015, p. 50).

2.4. Sustainability and inclusive development frameworks

While FDI in tourism speeds up economic growth, it also raises serious questions about its sustainability and inclusiveness. The nexus between FDI and sustainable development is increasingly advocated in academia as well as at policy levels.

Figure 3. Dimensions of sustainable FDI



Source: Peric and Radic (2011).

2.4.1. Triple bottom line

This is in line with the triple bottom line approach, balancing economic, social, and environmental objectives. It is in this way that economic growth is tagged with environmental conservation and community growth (WTTC, 2024; Bhatt et al., 2024).

There is also a growing integration of renewable energy solutions into tourism infrastructure. For example, solar-powered resorts and energy-efficient transportation systems reduce the carbon footprint while reducing operational costs. These newer initiatives attract environmentally conscious travelers and ensure global sustainability standards (Craigwell & Moore, 2008).

2.4.2. Cultural preservation and community engagement

Inclusive FDI involves the active participation of local communities in tourism planning and operations. By incorporating local traditions and heritage into tourism offerings, foreign investments can preserve cultural identity while generating income for communities (Arain et al., 2020).

It often extends into decision-making. Collaborative models, in which the involvement of local stakeholders is extended to planning and implementation, make tourism projects more attuned to the needs and aspirations of the host community (Ilie, 2015; Anuradha et al., 2024).

2.4.3. Mitigating environmental impacts

FDI-driven tourism projects must prioritize environmental stewardship. Initiatives such as using renewable energy, minimizing waste, and protecting natural habitats are critical for ensuring long-term sustainability (Li et al., 2017).

Most of the tourism projects with FDI require EIAs. In addition, it identifies all the possible environmental risks and hence devises a plan for mitigating these before the implementation of projects (Isik, 2015).

3. RESEARCH METHODOLOGY

The paper examines empirical studies and theoretical perspectives on the contribution of FDI to the development and competitiveness of the tourism industry. The clear research question is the role of FDI in the development and competitiveness of the tourism industry toward sustainable growth, and how FDI can influence the trends of the tourism sector. The databases that are explored are databases from the OECD, the IMF, and tourism statistics in general. By a comparative bibliographic review, this study collates theoretical insights and empirical studies from diverse global contexts to undertake an integrated analysis of strategies, successes, and limitations of tourism-related FDI to pursue development and economic adaptation to the international environment. Also, through this process, the findings show the importance of integrated policy approaches in aligning FDI inflows with sustainable tourism development goals and put forward recommendations for effective policy interventions that may contribute to the development and resilience of tourism in a highly competitive global environment.

3.1. Foreign direct investment contributions to tourism development

FDI plays an indispensable role in the development of the tourism industry by funding essential infrastructure, fostering innovation, and elevating service standards (Jonsson, 2022). Its contributions extend beyond monetary inflows, influencing socio-economic landscapes and creating long-term opportunities for host economies. This section explores how FDI supports tourism through infrastructure development, service quality improvements, and innovation while discussing the mechanisms underlying its impact.

Table 3. FDI is concentrated in a subset of tourism activities

Tourism sector activities 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 (2007, p. 14).

3.1.1. Infrastructure development

FDI is a cornerstone for building vital infrastructures that underpin the tourism industry, from transportation systems through to luxury hotels. This highly enhances the destination's accessibility and attractiveness and therefore competitiveness, especially with developments such as airports, seaports, highways, and hotels. Infrastructure development through FDI ensures ease of movement and lays the base for the various tourism activities.

Airports and transportation networks

Tourism thrives on accessibility, making investments in transportation infrastructure a priority (Hall, 2008; Harrison, 2001). Foreign investors often fund the expansion of airports and seaports, improving connectivity and attracting international visitors. For example, Dubai's world-class airport infrastructure, supported by significant FDI, has established the emirate as a global hub for tourism and trade. This has also happened with Singapore, where FDI-driven projects have transformed Changi Airport into one of the most efficient, as well as traveler-friendly, airports around the world (Wang et al., 2022).

Another beneficiary of FDI is railway and road infrastructure, especially where tourism is at its developmental stages. The infusion of FDI into transport infrastructure through initiatives increases accessibility to remote tourist attractions and, as such, encourages local tourism development. Equally, projects financed through FDI have also improved access to cultural and heritage sites in Eastern Europe and enhanced regional tourism (Wang et al., 2022).

Hospitality and accommodations

FDI in the tourism industry makes destinations globally competitive tourism destinations (Fauzel, 2021; Jonsson, 2022). FDI investments in luxury hotels, resorts, and theme parks satisfy high-value tourists and result in job opportunities and economic development. It is not all about luxury tourism, however. Such foreign investments have also helped low-budget hotel chains establish a strong presence in developing countries and make travel possible and more accessible for middle-income tourists. This democratization of tourism fosters inclusive growth and diversifies the economic benefits of the industry.

Urban development

Urban centers are becoming an attractive destination for tourism investments due to their cultural, historical, and entertainment assets. Places have used FDI to facilitate infrastructure development in conjunction with tourism growth, including projects on convention centers, entertainment districts, and public transportation systems. Quite often, this is part of larger urban renewal projects with the aim of upgrading underused inner-city areas and improving their economic use (Wang et al., 2022). FDI has a particular role in urban development, especially in emerging markets. FDI has financed developments that incorporate hotels with office space and retail outlets into self-sustaining ecosystems that work for business and leisure travelers alike. These are examples of how FDI can create synergies between tourism and other industries, thereby amplifying its economic impact (Lee & Brahmasrene, 2013; Kaur & Sarin, 2016).

Table 4. Summary of location factors of the hotel FDI attraction process (Part 1)

<table>
<tr><th>Location factors for FDI</th><th>Sample data</th><th>Methodology</th></tr>
<tr><td>• Market size</td><td rowspan="2">• 34 leading multinational hotel chains based in 30 countries.</td><td rowspan="5">• Questionnaire survey sent to hotel executives to identify and rank the factors influencing their competitive advantages.</td></tr>
<tr><td>• Growth rate</td></tr>
<tr><td>• Tourism opportunities</td><td rowspan="3">• Period: 1992</td></tr>
<tr><td>• Availability of infrastructure</td></tr>
<tr><td>• Political and economic stability</td></tr>
<tr><td>• Market size proxied by GDP and tourism revenues has the main location factors</td><td>• Data on FDI flow in the hotel sector for 67 host countries</td><td rowspan="2">• Questionnaire survey for global hotel chains
• Cross-sectional analysis using OLS regression procedure</td></tr>
<tr><td>• Other explanatory variables:
– Population
– Ratio of exports to GDP
– Country FDI rating
– Total inward FDI into nation</td><td>• The 67 countries in the sample encompass over 60% of all FDI-related hotel investment in the world.</td></tr>
<tr><td>• Home-country proximity</td><td rowspan="2">• Study for hotel operators in five countries in Eastern Central Europe.</td><td rowspan="2">• Questionnaire survey for leading chains, framed around an eclectic paradigm</td></tr>
<tr><td>• Market size and growth</td></tr>
<tr><td>• Infrastructure and tourism attractions</td><td rowspan="3">• 86 global hotel chains originating from 13 countries were questioned in 2001.</td><td rowspan="3">• Multivariate analysis</td></tr>
<tr><td>• Perception of region reputation</td></tr>
<tr><td>• Government incentives</td></tr>
<tr><td>• Historical, cultural and geographical distance</td><td rowspan="8">• FDI data from selected developed countries are examined for the period of 1985–2002.</td><td rowspan="2">• The author analyses the pattern and the scale of FDI in tourism using available data from selected countries.</td></tr>
<tr><td>• Level of economic development</td></tr>
<tr><td>• Cost-based factors (taxation and labour costs)</td><td rowspan="6">• The findings are derived from the interpretation of statistical data.</td></tr>
<tr><td>• Political and/or economic risks</td></tr>
<tr><td>• Industry privatization and FDI regulation</td></tr>
<tr><td>• Investment incentives</td></tr>
<tr><td>• Socioeconomic environment</td></tr>
<tr><td>• Infrastructure quality</td></tr>
<tr><td>• Tourism demand from developed countries</td><td rowspan="2">• Selected developed and developing countries</td><td rowspan="6">• Questionnaire survey sent to the world's leading hotel groups to identify the host-country determinants of FDI in the hotel industry</td></tr>
<tr><td>• Economic growth</td></tr>
<tr><td>• Market size</td><td rowspan="4">• Period: 1985–2004</td></tr>
<tr><td>• FDI incentives</td></tr>
<tr><td>• FDI related regulation</td></tr>
<tr><td>• Geographical and cultural proximity</td></tr>
<tr><td>• Health and safety (crime, HIV/AIDS, malaria)</td><td rowspan="2">• Estate agents in South Africa that are specialized in dealing with foreign direct investors.</td><td rowspan="4">• Questionnaire survey with a list of 42 host-country characteristics that may affect FDI in tourism industry</td></tr>
<tr><td>• Political stability</td></tr>
<tr><td>• Cost factors and skills</td><td rowspan="4">• Period: October 2006 to April 2007.</td></tr>
<tr><td>• Infrastructure (roads, airports)</td></tr>
<tr><td>• Market size (international tourism demand, GDP)</td><td rowspan="2">• Factor analysis was performed and five key factors were identified</td></tr>
<tr><td>• Tourism-specific amenities and assets (e.g. beaches, cultural sites and natural environment)</td></tr>
</table>

Table 4. Summary of location factors of the hotel FDI attraction process (Part 2)

Location factors for FDI	*Sample data*	*Methodology*
• Business regulations and host-market growth with a highest influence in tourism FDI than violent political unrest	• Egypt (2003–2006) • Qualitative expert interviews with leading industry managers	• The study combines the analysis of quantitative and qualitative data. • The findings are derived from the interpretation of statistical data and from qualitative fieldwork.
• Government policies	• Secondary information resources to identify multinational firms with new hotel expansion plans for China	• Data collected using keyword research. • Qualitative research with theory-generating approaches was used to analyse the data.
• Presence of local entrepreneurs		
• Mega events		
• Market potential	• Period: 2006–2008	
• Market size and demand measured by total inbound tourists and average inbound tourist spending	• Time-series data for 30 Chinese provinces between 1990 and 2009.	• Panel data • Regression analysis
• Actual FDI	• The annual data were collected from secondary data.	
• Business environment measured by GDP per capita		
• Policy and mega-events		
• Most important factors: – Welcomeness – Infrastructure – Socioeconomic factors (crime rate and corruption	• Data on both international rooms per capita and degree of internationalization were collected from Smith Travel Research and a sample of 123 international host destinations was obtained.	• Random effects panel data model
• Other factors: – Opportunities for tourism – Quality of human resources – Political stability – Restrictions and regulations – Cultural and development proximity – Price advantage	• Period: 2007–2011	
• Economic and market size	• FDI inflows in the hospitality industry into the OECD countries with special emphasis on Nordic countries.	• Panel data • Regression analysis • OLS estimations
• Taxes		
• Skilled labour		
• Cultural distance		

Source: Cro and Martins (2020).

3.1.2. Service quality and innovation

FDI improves the quality of tourism services by introducing global best practices, advanced technologies, and innovative business models (WTTC, 2021). These improvements benefit not only international tourists but also local businesses and communities, raising the overall standard of the tourism industry.

Global branding and standards

International hotel chains and tour operators bring globally recognized brands to host countries, with guaranteed service quality and instill customer trust. Firms use FDI to attain a commanding presence in source markets and set the pace in terms of standards of service delivery. This sets higher standards for local tourism products, forcing domestic operators to upgrade their facilities and services if they want to remain relevant (Tabash et al., 2023).

Technological advancements

FDI comes along with technological innovation in the tourism industry, enabling host countries to adopt new methods that could provide for an improved consumer experience. Artificial Intelligence, Virtual Reality, and Internet of Things become more integrated into tourism operations to make it not only more efficient but also more personalized (Jamshed et al., 2024).

• AI-powered solutions: AI-powered chatbots and recommendation systems facilitate customer service and personalize tourist experiences. The investors introduce these technologies mainly through partnerships with local companies, thereby initiating technology transfer and developing skills as well.

• Smart tourism initiatives: Some of the smart tourism platforms introduced in cities are FDI-funded. Using IoT, they offer information in real-time about tourist attractions, transport options, and events to ensure a better tourist experience and convenience.

• Sustainable technologies: FDI-backed projects frequently incorporate eco-friendly technologies, such as solar energy systems in resorts or water recycling in hotels. These initiatives align with global sustainability goals and appeal to environmentally conscious travelers (Florido-Benítez & Del Alcazar Martínez, 2024).

3.1.3. Knowledge transfer and innovation diffusion

FDI facilitates the transfer of knowledge and innovative practices to host countries, enabling them to modernize their tourism sectors and compete globally (OECD, 2021).

Knowledge spillovers

Knowledge transfer occurs when foreign investors share expertise with local firms and employees. In particular, international hotel chains often lead to the improvement of management practices by local companies and the upgrading of customer service, which improves overall industry development (Fauzel, 2021).

Collaborative innovation

FDI promotes collaboration between foreign and local players, leading to innovation along the tourism value chain. Collaboration between international investors and local universities, for example, can help develop research and development projects in sustainable tourism, digital marketing, and cultural heritage management. Such collaborations generate innovative solutions that fit the local context and enhance competitiveness (Cro & Martins, 2020).

3.1.4. Multiplier effects

The economic impact of FDI in tourism is amplified through multiplier effects, which generate benefits across sectors and regions.

Employment creation

The FDI-driven projects create both direct and indirect employment opportunities in the host country. Other than hotel staff and tour guides, FDI contributes to a number of jobs indirectly within the tourism industry through construction, agriculture, and retailing. Examples are integrated resorts, which have created thousands of jobs and added to local economic stability (Saner et al., 2019; Rasit et al., 2020).

Boosting local supply chains

Foreign investors typically buy goods and services locally, stimulating demand for local suppliers. This ramps up production and provides a source of income, creating local enterprises. A case in point is that the rise in farm-to-table fine dining experiences among international hotel chains has improved local agriculture (Rasit et al., 2020).

Enhancing regional development

FDI promotes the proper development of all regions by encouraging investments in underdeveloped areas with touristic significance. Projects in rural or coastal areas extend economic activities and contribute to reducing regional disparities (Saner et al., 2019).

Economic resilience

FDI makes host economies resilient through the diversification of income streams and a reduction in reliance on a single sector. Through integrating tourism with agriculture, manufacturing, and technology, FDI makes a web of value chains that spreads risks more evenly. This way, economies are better positioned to withstand external shocks, such as global economic downturns or pandemics, with much more stability (Xu et al., 2024). FDI is a transformative force in the tourism sector, contributing to infrastructure development, service quality improvements, and innovation (Hall, 2008; WTTC, 2021). Through this integration into global networks, FDI causes an increase in competitiveness and sustainability within the local economies. In real life, all the potential of FDI will be tapped through strategic management, sound governance, and inclusiveness of policies, aligning foreign investments with the host countries' long-term goals of development. FDI is a core element that will continue playing an important role in tourism development in its ever-evolving nature.

3.2. Regional case studies

The impact of FDI on tourism development varies significantly across regions, reflecting diverse economic structures, governance practices, and tourism strategies. This section delves into case studies from Asia-Pacific, Africa, Europe, SIDS, highlighting the successes, challenges, and lessons learned in leveraging FDI for tourism growth.

Table 5. Empirical findings of previous studies

Case study and period	*Variables*	*Methodology*	*Result of the direction of causality*
20 developing countries, 1995–2008	Tourism-related FDI, tourism arrivals	Panel VECM, Granger causality, Pedroni co-integration test	T-FDI → ARR ARR → T-FDI (only long-run causality)
18 major international tourism destinations, 1995–2010	Tourism arrivals, tourism-related FDI, economic growth	ARDL methodology, Granger causality	Mixed results
India, 1995Q2–2007Q2	FDI, international tourism arrivals	VAR, Granger causality	FDI → IARR
Turkey, 1970–2005	International tourism arrivals, FDI	ARDL methodology, Granger causality	IARR → FDI
Malaysia, Singapore, Thailand, China and Hong Kong, 1978–2008	Tourism arrivals, FDI	ARDL methodology, Granger causality	Mixed results
China, 1978–2005	International tourism arrivals, FDI	VECM, Johansen co-integration, Granger causality	FDI → IARR
Croatia	International tourism arrivals, FDI	Toda-Yamamoto causality	FDI → IARR
21 SIDS, 1980–2004	FDI, tourism GDP	Granger causality (HINC, HC, HENC)	Bidirectional causality
China, 1978–2005	FDI, economic growth, tourism	VECM, Granger causality	FDI → tourism

Source: Peric and Radic (2016).

3.2.1. Asia-Pacific: Unlocking potential through FDI

The Asia-Pacific region is characterized by its cultural richness, natural attractions, and economic dynamism. FDI has played a critical role in developing this region's tourism infrastructure, diversifying offerings, and elevating service standards (OECD, 2020a).

Thailand: A global wellness tourism leader

Thailand has become a global hub for wellness tourism, thanks to substantial FDI inflows into luxury spas, medical facilities, and wellness retreats (Fauzel et al., 2017). Foreign investors have partnered with local businesses to establish world-class health resorts, attracting high-spending tourists. However, the influx of tourism has led to challenges, necessitating stricter environmental regulations and a focus on sustainable practices (Arain et al., 2020).

China: Integrating technology and tourism

China's tourism sector has benefited from FDI in smart tourism initiatives. Cities have partnered with foreign tech companies to develop integrated platforms that provide real-time information on attractions, bookings, and transportation. These investments have not only enhanced tourist experiences but also boosted domestic tourism. The challenge is in making these technologies inclusive, which means addressing the digital divide between the rural and urban populations. Besides this, FDI has given a face to cultural tourism in China. Other projects for the restoration of ancient towns and heritage sites funded by international organizations have also attracted tourists as a means of preserving the country's cultural identity; this evokes the need for a balance between modernization and conservation (Song et al., 2020).

3.2.2. Africa: Leveraging natural assets for growth

Africa's diverse landscapes and cultural heritage make it a prime destination for FDI in tourism. While challenges such as political instability and infrastructure deficits persist, several countries have successfully attracted foreign investments to develop their tourism sectors (Adeola et al., 2020).

Kenya: Eco-tourism and conservation

Kenya has leveraged FDI to integrate eco-tourism with wildlife conservation (Adeola et al., 2020). High-class safari lodges have been born out of partnerships between multinational firms and local communities, promoting better sustainable practices. Such projects have generated revenue and, at the same time, funded conservation to preserve Kenya's unique biodiversity. Despite these successes, challenges remain. Issues such as inadequate infrastructure and uneven benefit distribution hinder the full potential of FDI in Kenya's tourism sector (Nunkoo & Seetanah, 2018).

South Africa: Urban and heritage tourism

FDI has also been attracted to South Africa through urban tourism projects. International hotel chains and entertainment complexes have transformed these cities into hotbeds of tourism activities. Heritage sites have benefited from investment in improving access and visitor facilities (Snyman & Saayman, 2009). However, disparities in tourism development between urban centers and rural areas call for the need to think of strategies that are inclusive. Investment in rural tourism projects at wine estates and cultural villages will go a long way in ensuring even development and attaining inclusive growth (Adeola et al., 2020).

3.2.3. Europe: High-value tourism and innovation

Europe's established tourism markets have used FDI to enhance high-value tourism experiences, focusing on luxury, culture, and sustainability.

Spain: Integrated resorts and cultural tourism

Spain has effectively utilized FDI to develop integrated resorts and enhance cultural tourism (Hall, 2008). Projects like PortAventura World and investment in the iconic Sagrada Familia raised foreign visitors' interest in Spain. Other projects of sustainable tourism, like environmentally friendly hotels on the Canary Islands, also received financing from FDI and showed the capacity of Spain for growth while caring for the environment. In addition, Spain's gastronomic tourism was bolstered by investments from abroad into restaurants earning Michelin stars and gastronomic schools. This attracts gourmands from all over the world, who further reinforce Spain's perception as a top-level gastronomic country (Sokhanvar & Jenkins, 2021).

Croatia: Transforming coastal tourism

Croatia's Adriatic coast has been a magnet for FDI, with luxury marinas, boutique hotels, and cruise terminals driving tourism growth. The government's investment-friendly policies, coupled with tax incentives and streamlined procedures, have lured multinational corporations into the country. However, the environmental impact of such development, especially along sensitive coastlines, has spurred conservationists into protest (Peric & Radic, 2016). In response to these challenges, Croatia has initiated policies that will stimulate eco-friendly investments (Peric & Radic, 2016).

3.2.4. Small Island Developing States: Resilience and Innovation

SIDS face unique challenges, including geographic isolation and vulnerability to climate change. FDI has been instrumental in addressing these challenges by funding resilient infrastructure and promoting niche tourism markets.

Mauritius: Luxury and sustainability

Mauritius has positioned itself as a luxury tourism destination, with FDI driving the development of high-end resorts and integrated tourism complexes (Fauzel et al., 2017; Ilie, 2015; Fauzel, 2021). Foreign investors have also supported initiatives in renewable energy and waste management, aligning with Mauritius' sustainability goals. These projects have strengthened the island's resilience to external shocks, such as economic downturns or environmental disasters.

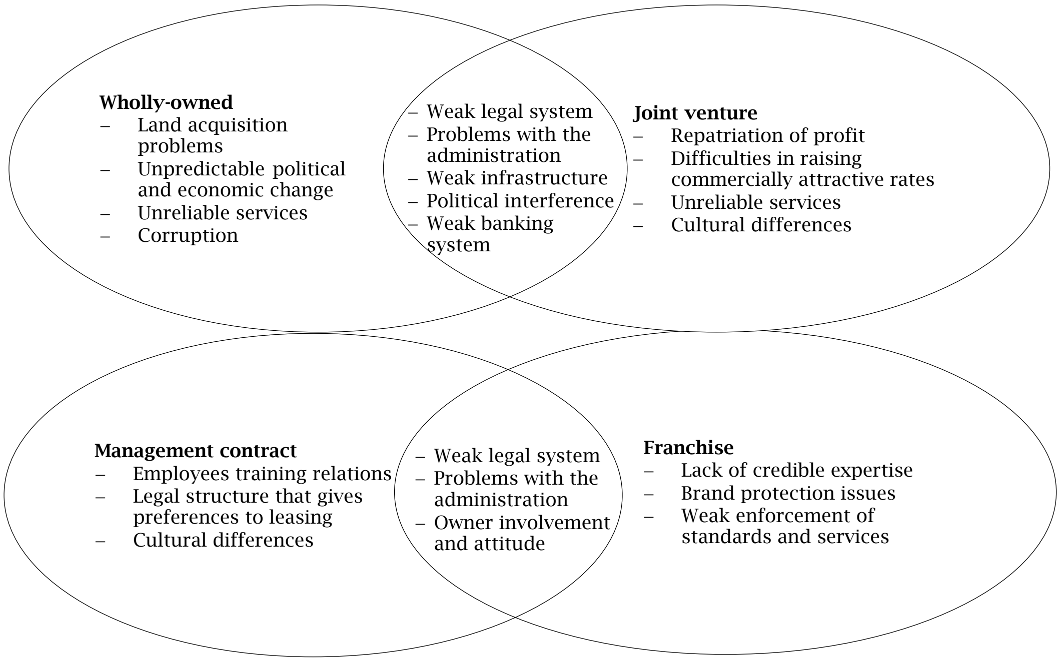
Maldives: Pioneering eco-tourism

The Maldives exemplifies the potential of FDI in promoting eco-tourism. Investments in solar-powered resorts and coral reef conservation projects have positioned the Maldives as a leader in sustainable luxury tourism. These initiatives attract environmentally conscious travelers while preserving the country's fragile ecosystems (Jonsson, 2022).

3.3. Challenges of FDI in tourism

While FDI is a critical enabler of tourism development, it is not without challenges. These challenges span environmental, social, economic, and governance dimensions, highlighting the complexities of integrating foreign investments into the tourism sector (Dunning, 1988; Hall, 2008). This section explores the key obstacles associated with FDI in tourism, emphasizing the need for strategic management and stakeholder collaboration.

Figure 4. Possible problems for different modes of operation



Source: UNCTAD (2006) as cited in UNCTAD (2007, p. 41).

3.3.1. Environmental impacts

Such projects are likely to put a strain on the environment in cases of fragile ecosystems or low levels of renewable natural resources. Some of the environmental challenges related to FDI in tourism include resource depletion, habitat destruction, and pollution (Liu, 2003).

Overuse of natural resources

Tourism development is often based on the heavy consumption of local resources, such as water, energy, and land. Large-scale resort and hotel projects financed by FDI have increased the stress on water shortages in arid areas or small islands. Large volumes of freshwater are used by luxury resorts, thus raising concerns about sustainability and the distribution of resources (World Tourism Organization & United Nations Development Programme, 2018; Jonsson, 2022). Similarly, in regions, FDI-driven tourism has led to significant strain on freshwater resources, impacting both residents and agricultural activities (WTTC, 2021).

Pollution and waste management

FDI-based tourism projects contribute to air and water pollution and increased waste generation. Waste management systems of popular tourist destinations are often inefficient in handling the waste generated by large numbers of visitors. For example, the waste management system has been burdened due to the arrival of tourists, which has resulted in the pollution of its rivers and beaches (Jonsson, 2022). Similarly, in Mediterranean destinations like Greece, untreated sewage from tourist resorts has had detrimental effects on marine life and public health (OECD, 2020a; WTTC, 2021). Governments must prioritize robust waste management systems to address these challenges effectively.

3.3.2. Cultural commodification and social impacts

FDI in tourism can affect local cultures and communities in profound ways. While tourism often promotes cultural exchange and economic opportunities, it can also lead to commodification, social inequalities, and displacement (Harrison, 2001).

Cultural erosion and commodification

The inflow of foreign investment and tourists can dilute the local tradition, turning what was purely a cultural habit into some commercialized touristic product. Traditional ceremonies, festivals, and crafts are packaged for tourists, losing much of their authenticity and meaning (Harrison, 2001; Jonsson, 2022).

Economic displacement

Large FDI-driven projects can displace local businesses and residents, particularly in prime tourism locations. The acquisition of land for luxury resorts or commercial developments often marginalizes local communities, forcing them to relocate or accept limited economic benefits (WTTC, 2021).

Inequality and exploitation

Furthermore, FDI enhances economic inequity in that most of the profits are repatriated to home countries rather than being economically useful where they originate. Secondly, there are complaints about labor exploitation, as many workers in the tourism sector receive low wages, besides virtually no labor protection. Addressing these issues requires stronger labor laws, equitable profit-sharing mechanisms, and corporate social responsibility (CSR) commitments from foreign investors (Hanafiah & Zulkifly, 2019).

3.3.3. Economic risks and dependency

While FDI can stimulate economic growth, it also creates vulnerabilities and dependencies that can hinder long-term sustainability. These economic risks include profit repatriation, over-reliance on tourism, and exposure to global market fluctuations (Hall, 2008).

Profit repatriation

A significant portion of the revenue generated by FDI-backed tourism projects is often repatriated to foreign investors, limiting the economic benefits for host countries (Fauzel, 2021). This issue is particularly acute in developing nations, where the tourism sector's contribution to GDP does not always translate into local wealth creation (Kaur, 2016). Governments can mitigate this challenge by negotiating agreements that ensure a fair share of profits remains in the host country. Tax incentives that prioritize local reinvestment and support for community projects are viable strategies (Ibrahim, 2024).

Over-reliance on tourism

FDI can lead to an over-reliance on tourism as a primary economic driver, making countries vulnerable to external shocks. Events such as economic recessions, natural disasters, or pandemics can significantly disrupt tourism flows, as evidenced by the COVID-19 pandemic (Efthimiou, 2024a). Countries heavily reliant on tourism experienced severe economic contractions during the pandemic, underscoring the need for economic diversification (Domazet et al., 2024). Diversification strategies might include investing in agriculture, technology, or renewable energy sectors to create alternative income streams.

3.3.4. Governance and regulatory challenges

The effective management of FDI in tourism requires robust governance frameworks and regulatory mechanisms. Weak governance can exacerbate the negative impacts of FDI, including corruption, regulatory loopholes, and unsustainable practices (OECD, 2020a; Arain et al., 2020).

Corruption and lack of transparency

Corruption in the issuance of FDI projects erodes public confidence and could result in inferior performance. Sometimes, foreign investors are granted lucrative deals through untransparent procedures, thereby bypassing local stakeholders. Transparency in the bidding process and mechanisms for accountability are thus crucial to ensuring equal investment opportunities (Fauzel et al., 2017).

Regulatory gaps

The failure to provide for adequate regulation would certainly translate to environmental degradation, labor exploitation, and unbridled development. Strengthening regulatory frameworks is crucial for balancing economic growth with sustainability. International cooperation on regulatory standards, such as those outlined by the United Nations World Tourism Organization (UNWTO), can provide valuable guidance (World Tourism Organization & United Nations Development Programme, 2018).

4. RESULTS AND DISCUSSION

4.1. Best practices and policy recommendations

Addressing the challenges associated with FDI in tourism requires a comprehensive and multifaceted approach that aligns economic growth with sustainability, equity, and inclusivity (Dunning, 1988). While FDI can stimulate considerable improvements in tourism development, these benefits often come with challenges that must be well managed. Among them are environmental degradation, cultural commodification, economic inequality, and governance complexities (OECD, 2021; Arain et al., 2020). Without strategic interventions, the adverse impacts of FDI can overshadow its contributions, leading to long-term social and environmental costs (Bhatt, 2024). To maximize the positive impacts of FDI, it is essential to adopt best practices and policy measures that prioritize sustainable and inclusive development (WTTC, 2021; Bhatt et al., 2024). Effective governance frameworks, stakeholder engagement, and innovative financial mechanisms are critical components of this process (Anuradha et al., 2024). Policymakers and industry leaders must collaborate to create an enabling environment where FDI supports local communities, protects cultural heritage, and preserves natural resources while generating economic value (OECD, 2020a). These recommendations are informed by international case studies, empirical studies, and insight from experts on how various actors can act, ranging from governments and investors to non-governmental organizations (NGOs) and local communities, grounded in realities, together with ways of incentivizing sustainable investments, ensuring equitable distribution of profit, and building regulatory capacity for a resilient sector able to adapt to changing global issues such as climate change and shifting market dynamics (Dunning, 1988; World Tourism Organization & United Nations Development Programme, 2018). These cases showcase varied strategies for tourism, highlighting the successes, challenges, and lessons learned in leveraging FDI for tourism growth and illustrating how FDI leverages resources for sustainable tourism development. This is the reason why these cases were selected.

These best practices and recommendations are organized around key thematic areas, each dealing with an essential aspect of tourism FDI management (Li et al., 2017). Together, they provide a way forward in creating a balanced approach that can ensure economic, social, and environmental FDI benefits are shared as equitably as possible between different stakeholders, while harms are minimized (Wang et al., 2022; WTTC, 2021).

Figure 5. Policy stances towards tourism-related FDI

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

Source: UNCTAD (2007, p. 96).

4.1.1. Incentivizing sustainable investments

Sustainable investments are crucial for ensuring that FDI in tourism contributes positively to the economy, society, and environment (Tecel et al., 2020). Policymakers can encourage such investments through targeted incentives, regulatory frameworks, and partnerships that prioritize sustainability goals (OECD, 2022; Khan et al., 2020).

Tax incentives for eco-friendly projects

Governments can offer tax breaks or reduced tariffs for tourism projects that meet stringent environmental and social criteria. Examples include:

1) Green building certifications: Providing tax reductions for projects that adhere to sustainable building standards encourages investors to prioritize eco-friendly infrastructure (Arain et al., 2020; Jonsson, 2022).

2) Renewable energy usage: Offering subsidies or tax credits to resorts and hotels that incorporate renewable energy sources, such as solar or wind power, can reduce carbon footprints and operational costs (Tabash et al., 2023).

3) Waste management systems: Incentivizing investments in advanced waste treatment and recycling systems ensures responsible resource management (Jamshed et al., 2024).

Simplified approval processes for sustainable projects

Fast-tracking permits and approvals for projects with demonstrated sustainability goals can attract responsible investors. For instance:

1) Eco-tourism projects that integrate local communities and prioritize environmental conservation can benefit from expedited processes (Barrowclough, 2007; Cerovic et al., 2015).

2) Public-private partnerships (PPPs) can ensure transparency and streamline bureaucracy for sustainable developments (WTTC, 2021; OECD, 2022).

Furthermore, digital platforms can be employed to manage the approval process more efficiently, providing real-time updates and minimizing delays, which is crucial for maintaining investor confidence (Wang et al., 2022).

Green bonds and financing mechanisms

Governments and financial institutions can issue green bonds to fund tourism projects that align with sustainability goals. These bonds offer investors an opportunity to support:

1) Infrastructure that minimizes environmental impacts, such as electric transportation systems for tourists (Lee & Brahmasrene, 2013; WTTC, 2021).

2) Conservation initiatives tied to tourism, such as marine protection zones or reforestation projects (OECD, 2021; Ilie, 2015).

Expanding on this, tourism hubs can establish sustainability funds backed by international financial institutions to ensure continuous support for eco-friendly tourism initiatives (Wedayanti & Pulungan, 2023).

Promotion of low-impact tourism models

Encouraging low-impact tourism models, such as eco-tourism and cultural tourism, ensures that FDI contributes to long-term sustainability. Policymakers can:

1) Set caps on tourist numbers in sensitive areas to prevent over-tourism (Hall, 2008; World Tourism Organization & United Nations Development Programme, 2018).

2) Provide grants or subsidies for small-scale, community-driven tourism initiatives (Jonsson, 2022).

3) Create regulatory frameworks that require foreign investors to collaborate with local communities (Jonsson, 2022).

Similarly, countries can explore dynamic pricing models that adjust fees based on environmental conditions and tourist behavior, ensuring a balance between economic benefits and conservation needs (Wedayanti & Pulungan, 2023).

4.1.2. Strengthening local participation

Empowering local communities is a cornerstone of sustainable tourism development. FDI in tourism can yield long-lasting benefits when it actively involves local stakeholders in planning, decision-making, and operations (Dunning, 1988; Hall, 2008; OECD, 2020b). Strengthening local participation not only enhances the economic and social benefits of tourism but also fosters inclusivity and mitigates potential conflicts (World Tourism Organization & United Nations Development Programme, 2018). Without active engagement, FDI projects risk alienating local populations, leading to social tensions and missed opportunities for equitable growth. Local participation ensures that the voices of those most affected by tourism projects are heard and respected. This approach goes beyond token involvement, prioritizing genuine collaboration and shared ownership (Fauzel et al., 2017). By integrating local knowledge, traditions, and priorities into FDI-driven tourism, stakeholders can create projects that reflect the unique character of the host community while enhancing its appeal to international tourists (WTTC, 2023). Moreover, strengthening local participation builds resilience within communities, enabling them to adapt to global challenges such as economic shifts, environmental changes, and market disruptions (Sokhanvar, 2022). This section debates the ways to include local communities in FDI-driven tourism projects and make them active contributors and beneficiaries, rather than observers. It shows practical ways of including communities in beneficial involvement, employment, entrepreneurship, cultural preservation, and equitable benefit distribution that are necessary for a sustainable and inclusive tourism sector (Dunning, 1988; Hall, 2008).

Fostering community involvement in decision-making

Inclusive planning processes

FDI projects should adopt participatory planning models that engage local communities from the outset. This approach ensures that development aligns with local needs, values, and aspirations. Governments and investors can:

1) Conduct stakeholder consultations: Regular meetings with community leaders, NGOs, and residents provide a platform for discussing potential impacts and benefits (WTTC, 2024).
2) Establish advisory committees: Local advisory committees, including representatives from diverse demographics, can guide project planning and implementation, ensuring that decisions reflect community interests (Tabash et al., 2023).
3) Leverage digital platforms: Online tools and forums can broaden participation, enabling even remote communities to voice their perspectives (WTTC, 2021).

Inclusive planning also benefits investors by identifying potential areas of conflict early and fostering goodwill with local populations (UNCTAD, 2007). Transparent communication and collaborative tools build trust and ensure smoother project execution (OECD, 2022).

Community-based agreements

It ensures legally binding agreements between investors and local communities, providing for accountability regarding equitable benefit sharing. For example, community benefit agreements can detail the number of jobs created, infrastructural investments, and mechanisms of profit sharing (WTTC, 2023). These agreements foster trust and transparency while reducing the risk of disputes (UNCTAD, 2007).

Incorporating dispute resolution mechanisms within these agreements can further strengthen their effectiveness. By providing a clear framework for addressing grievances, investors and communities can maintain productive relationships throughout the lifecycle of a project (WTTC, 2023).

Promoting local employment and skill development

Job creation for local residents

FDI-driven tourism projects should prioritize hiring residents, particularly in areas with high unemployment rates. Strategies include:

1) Job quotas: Mandating minimum percentages of local hires for construction, operations, and management roles (Hall, 2008; OECD, 2022).
2) Fair recruitment practices: Ensuring equal opportunities for underrepresented groups, including women, youth, and indigenous populations (World Tourism Organization & United Nations Development Programme, 2018; WTTC, 2021).

Beyond providing jobs, it is essential to offer competitive wages and benefits that reflect the cost of living in host communities (Sokhanvar & Jenkins, 2021). Long-term employment contracts can also improve job stability, fostering stronger economic ties between investors and local workers (Sokhanvar & Jenkins, 2021).

Skill development initiatives

Investors can contribute to workforce development by establishing training programs tailored to the tourism industry. Partnerships with educational institutions and vocational training centers can:

1) Equip locals with skills in hospitality, culinary arts, and eco-tourism (Saner et al., 2019).
2) Provide certifications recognized by international tourism organizations (Saner et al., 2019).
3) Offer apprenticeships and internships for practical experience (OECD, 2021).

Encouraging local entrepreneurship

Support for small and medium-sized enterprises (SMEs)

FDI can catalyze local entrepreneurship by integrating SMEs into tourism value chains. Investors and governments can:

1) Promote local suppliers: Encourage international hotel chains to source food, beverages, and artisanal goods from local producers (Nunkoo & Seetanah, 2018).
2) Facilitate access to finance: Provide low-interest loans and grants to local entrepreneurs, enabling them to establish and scale businesses that cater to tourism (Nunkoo & Seetanah, 2018).
3) Offer business development services: Training programs in marketing, management, and

digitalization can empower SMEs to compete in global markets (OECD, 2021).

PPPs can further bolster local entrepreneurship by combining the resources and expertise of foreign investors with the local knowledge and networks of community-based businesses (Nunkoo & Seetanah, 2018).

Joint ventures and partnerships

Collaborative ventures between foreign investors and local businesses can create mutually beneficial opportunities. These partnerships:

1) Ensure technology and knowledge transfer (Singh & Singh, 2016).

2) Enable locals to gain insights into international best practices (Ekanayake & Long, 2012).

3) Foster a sense of ownership and shared success (Ekanayake & Long, 2012).

4.1.3. Enhancing regulatory frameworks

A strong regulatory framework is vital in the management of FDI in tourism. Regulations act as the guiding and controlling tools that ensure investment aligns with national development goals and respects local culture and environmental resources (Dunning, 1988; Hall, 2008). Without strong regulations, FDI can lead to unintended consequences such as exploitation of local communities, unchecked environmental degradation, and socio-economic inequalities that undermine long-term development objectives (Rasit et al., 2020). Effective regulatory frameworks create an enabling environment for sustainable tourism by balancing the interests of investors, governments, and local stakeholders (Rasit et al., 2020). These frameworks provide clear guidelines for investment, ensuring transparency and accountability throughout the project lifecycle. They also establish safeguards to mitigate risks associated with FDI, such as over-tourism, cultural commodification, and ecological damage (Song et al., 2020). In addition to mitigating risks, enhanced regulatory frameworks foster investor confidence. Clear, consistent, and well-enforced regulations reduce uncertainty and promote fair competition, making destinations more attractive to responsible investors (Song et al., 2020). This section covers the different approaches to enhance the regulatory frameworks of tourism concerning transparency and accountability, protection of the environment, and international standards in consideration. Strengthening these pillars will enable governments to ensure FDI contributes toward sustainable, inclusive, and resilient tourism development (UNCTAD, 2007).

Promoting transparency and accountability

Streamlined and transparent processes

Streamlining regulatory processes enhances investor confidence while ensuring compliance with national priorities (Sharma, 2004). Transparent systems can include:

1) Digital portals for permits and licenses: Implementing online platforms for submitting and tracking applications reduces bureaucratic inefficiencies and opportunities for corruption (Cro & Martins, 2020).

2) Clear guidelines for investors: Publishing comprehensive guidelines on investment requirements and procedures promotes transparency and reduces ambiguity (Cro & Martins, 2020).

3) Public access to information: Ensuring that information on approved projects, environmental assessments, and financial contributions is accessible to the public fosters accountability (Rasit et al., 2020).

Independent oversight bodies

Establishing independent regulatory bodies to oversee tourism-related FDI ensures that investments are aligned with ethical and legal standards (Dunning, 1988; Hall, 2008). These bodies can:

1) Monitor compliance with environmental and labor regulations (OECD, 2021).

2) Mediate disputes between investors and local stakeholders (OECD, 2021).

3) Audit financial contributions to ensure equitable revenue distribution (OECD, 2021).

Such oversight bodies should be empowered with adequate resources, authority, and legal mandates to enforce regulations effectively. They can also serve as neutral arbiters in cases of conflict, ensuring fair resolutions for all parties involved (Satrovic & Muslija, 2019).

Strengthening environmental protections

Mandatory Environmental Impact Assessments (EIAs)

Requiring comprehensive EIAs for all FDI-backed tourism projects ensures that potential environmental risks are identified and mitigated (Barrowclough, 2007). EIAs should include:

1) Assessments of biodiversity impacts and resource use.

2) Mitigation plans for minimizing ecological damage.

3) Public consultations to incorporate local perspectives (Cerovic et al., 2015).

Enforcing sustainable development standards

Governments should adopt and enforce sustainability standards tailored to their unique ecosystems. Key measures include:

1) Green building codes: Mandating eco-friendly construction practices for tourism infrastructure.

2) Renewable energy requirements: Encouraging the use of solar, wind, and other renewable energy sources in resorts and hotels.

3) Pollution control mechanisms: Implementing strict waste management and emissions reduction protocols (Jamshed et al., 2024).

Aligning with global standards

Adopting international best practices

Aligning national regulations with international standards fosters global competitiveness and attracts high-quality investments. Governments can:

1) Partner with organizations like the UNWTO to adopt globally recognized guidelines.

2) Participate in certifications such as Green Globe or EarthCheck to demonstrate commitment to sustainability.

3) Benchmark policies against successful case studies from countries with thriving tourism sectors (UNCTAD, 2007).

Collaboration with international organizations also facilitates knowledge exchange and capacity-building for local regulatory agencies, enhancing their ability to manage complex FDI projects (OECD, 2021).

Monitoring and enforcement mechanisms

Regular inspections and audits

Frequent inspections of tourism projects ensure compliance with regulations (Dunning, 1988; Hall, 2008). Regulatory agencies should:

1) Conduct unannounced audits to assess adherence to environmental, labor, and financial requirements.

2) Impose penalties for violations to deter non-compliance.

Enhanced inspection protocols, combined with public reporting of findings, reinforce accountability and transparency in FDI-driven tourism (Jonsson, 2022).

Technology-driven monitoring

Utilizing technology enhances the efficiency of regulatory enforcement. For example:

1) Satellite imagery and drones can monitor environmental impacts and land-use changes.

2) Blockchain technology can track financial transactions and ensure transparency in revenue sharing.

Integrating data analytics into regulatory processes enables real-time monitoring and adaptive management, ensuring that tourism projects remain aligned with sustainability objectives (Efthimiou, 2024a). Improvement in regulatory frameworks is important for making FDI go toward sustainable and inclusive development. Transparency, reinforcement of environmental protection, meeting international standards, and protection of local communities are all ways in which governments can maximize the potential benefits of FDI while minimizing negative impacts. A sound regulatory environment attracts responsible investors and instills confidence in the stakeholders towards the long-term viability of the tourism project.

4.1.4. Promoting skill development

Skill development promotion is another important strategy in enhancing the impacts of FDI in tourism. Quite often, foreign capital brings advanced technologies, international standards of operation, and new methods of doing business that must be manned by skilled personnel for better accomplishment (Dunning, 1988; Hall, 2008). By equipping local populations with relevant skills, governments and investors can enhance employability, foster economic inclusivity, and ensure the long-term sustainability of tourism projects. Skill development is not only a tool for economic empowerment but also a means of strengthening the resilience of local communities. A skilled workforce is better positioned to adapt to industry changes, compete in global markets, and drive innovation in tourism offerings. This section outlines key approaches for promoting skill development within the context of FDI-driven tourism, focusing on education, training programs, public-private partnerships, and inclusive strategy (Hanafiah & Zulkifly, 2019).

Integrating tourism into educational curricula

Vocational training in schools

Incorporating tourism-focused vocational training into secondary and higher education curricula prepares students for careers in the sector. Key components include:

1) Hospitality basics: Courses on customer service, hotel operations, and culinary arts.

2) Language skills: Multilingual proficiency to cater to international tourists.

3) Cultural competence: Understanding and respecting diverse cultural expectations.

Governments can collaborate with foreign investors to design curricula that reflect global industry standards, ensuring graduates are competitive in both local and international markets (Wang et al., 2022).

Establishing tourism academies

Dedicated institutions for tourism and hospitality education can play a transformative role in workforce development. These academies should:

1) Offer certifications recognized by international organizations such as the World Travel and Tourism Council (WTTC).

2) Provide practical training through simulated hotel and travel agency environments.

3) Partner with foreign investors to offer internship opportunities at FDI-backed projects (WTTC, 2024).

Public-private partnerships for skill development

Collaborative training programs

PPPs enable governments and investors to pool resources for workforce development. Key initiatives include:

1) Internships and apprenticeships: Structured programs that allow locals to gain hands-on experience in FDI-driven tourism projects.

2) Executive training: Advanced courses for managerial and leadership roles, fostering a pipeline of local leaders.

Promoting inclusivity in skill development

Empowering underrepresented groups

Skill development programs must address inequalities by focusing on marginalized populations. Strategies include:

1) Targeted outreach: Recruiting women, youth, and indigenous groups into training programs.

2) Scholarships and subsidies: Financial support for disadvantaged individuals to access tourism education.

3) Flexible training formats: Online courses and part-time programs that accommodate diverse schedules and responsibilities (OECD, 2022).

Leveraging technology for skill development

E-learning platforms

Digital platforms provide scalable solutions for training large populations. These platforms can offer:

1) Self-paced modules: Covering topics such as digital marketing, sustainable tourism practices, and crisis management.

2) Virtual reality (VR) simulations: Immersive experiences for training in customer service and operational scenarios.

3) Certification programs: Credentials endorsed by international tourism bodies (Efthimiou, 2025b).

AI-driven personalization

Artificial intelligence can enhance learning by tailoring content to individual needs. AI-powered platforms can assess skill gaps and recommend targeted training modules, ensuring efficient skill development (Domazet et al., 2024).

Skill development will, therefore, be an important ingredient in realizing the fullest potential of FDI in tourism. This encourages investment in education, improves public-private partnerships, and harnesses technology for developing such a skilled workforce that leads to sustainable and inclusive growth. The right kind of skills will surely empower the local people and turn FDI-driven projects into long-term opportunities, ensuring tourism development for all members of society.

5. CONCLUSION

FDI has been a game-changing factor in upgrading the infrastructure of tourism, enhancing the quality of services, and fostering growth indirectly. This paper discusses the multirole of FDI in tourism, from theoretical evidence to practical impacts and challenges arising after FDI. This report explores best practices and offers concrete, actionable recommendations on how FDI can make a strong contribution to the tourism sector and share the proceeds of sustainable and inclusive development. Other positive additions, such as technological transfer, skill development, and integration into the global marketplaces of FDI in tourism, are considerable added values. Croatia, for instance, has isolated strategic policies of cooperation with private investors that transform tourism into one of the anchor sectors of its national development process. These isolated examples highlight the challenges in ensuring FDI initiatives align with local concerns related to preserving their culture and ecosystems in perpetuity (Peric & Radic, 2016). 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 of 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. 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 (UNCTAD, 2007). However, FDI has its fair share of drawbacks: environmental degradation, cultural commodification, economic inequalities, and complexities in governance are some of the factors that weaken the positive impacts of foreign investments. The challenges also require a strong regulatory framework, transparent governance, and the involvement of the community. In fact, strategic management will minimize the negative impacts of FDI and ensure tourism development is both equitable and sustainable. The recommendations presented in this paper show ways to maximize the benefits of FDI in tourism. Policy makers and stakeholders should focus on the following:

1) Incentivizing sustainable investments: Promoting eco-friendly practices through tax incentives, green bonds, and mandatory environmental assessments.

2) Strengthening local participation: Empowering communities through inclusive decision-making, employment opportunities, and cultural preservation initiatives.

3) Enhancing regulatory frameworks: Ensuring transparency, accountability, and alignment with global standards to foster responsible investment practices.

4) Promoting skill development: Building a skilled workforce capable of driving innovation and maintaining high service standards in tourism (Anuradha et al., 2024).

Interactions between FDI and tourism are complicated processes attached to regional contexts, market dynamics, and socio-political factors. This underlines the need for customized approaches, which may represent each destination's peculiar challenges and opportunities. There is an imminent requirement for collaboration among governments, investors, international organizations, and local communities to achieve a growth trajectory that would be balanced and inclusive. The integration of sustainability within FDI-driven tourism projects, therefore, becomes both a challenge and an opportunity forward. With a constantly evolving climate change context, advances in equity at social levels, and technologies that continue to make giant leaps forward, innovative solutions must keep pace, often with novel strategic formulations on the part of the tourist sector stakeholders. Emphasizing sustainability, inclusiveness, and resilience will render FDI an agent for bringing about a transformative change to this sector beyond only economic benefits. FDI can also enhance the resilience of the tourism sector to exogenous shocks. The COVID-19 pandemic showed the vulnerability of economies dependent on tourism and, thus, the need for diversified investments and adaptive strategies. Through developing linkages between tourism and other sectors, including agriculture, technology, and education, FDI can create more resilient economic ecosystems better equipped to withstand global disruptions. Moreover, FDI-driven tourism can act as a vehicle for cultural exchange and global understanding. Where well-managed, tourism projects bring people of different cultures together in a way that fosters mutual respect and appreciation. This is the cultural dimension that gives meaning to FDI projects in terms of social cohesion and global citizenship. But this will have to be premised on cultural preservation and active, constructive participation by local communities in shaping tourism experiences. This also requires governments to look upon the contribution of technology as an integral part of maximizing the benefit of FDI in tourism. Smart tourism technologies, including artificial intelligence (AI), data analytics, and virtual reality, bring new and innovative ways to enhance the visitor experience and optimize resource use. FDI can drive the adoption of these technologies and position destinations as leaders in the competitive global market (Florido-Benítez & Del Alcazar Martínez, 2024). All the new developments must guarantee equity to circumvent widening inequalities in digital disparity between urban and rural areas. The potential of FDI to enhance the tourism industry is limitless if its inputs are managed in a prudent and responsible manner. The paper, therefore, calls for an integrated approach toward FDI in tourism that balances economic aspirations with social and environmental imperatives. It is only thus that tourism globally can emerge as a model of sustainable development, an example of what cooperation, innovation, and shared prosperity can achieve. The future of FDI in tourism depends on the capability of FDI to create long-term value for all stakeholders. A broad, widely shared vision is called for, one that prioritizes long-term benefits over short-run gains. Policy makers, investors, and communities must cooperate in building tourism systems that are responsible, resilient, and sustainable. Through coordination, FDI can transform the tourism sector into a force for good: one that delivers growth with preservation of the cultural and natural treasures, giving identity to destinations. The research has some limitations: the contribution of FDI to tourism development, the regional case studies, and the challenges of FDI to the tourism sector. Finally, future research should focus on the comparative recording and presentation of the resilience of the tourism industry to various shocks, as well as the changes in tourists' choices brought about by the new forms of tourism that have resulted from the contribution FDI to the tourism industry and as well as which of the resilience and adaptation factors of the branch has stood out according to the tourists' choices.

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