

EFFECT OF FOREIGN DIRECT INVESTMENT ON GROWTH OF HOSPITALITY INDUSTRY IN USA

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ABSTRACT

Purpose of the study: The study examined the effect of foreign direct investment on the growth of the hospitality industry in the USA.

Research methodology: The study embraced the descriptive research design. The target population was 413 employees from the Ministry of Hospitality in the USA. The sample size was 2013. The study used questionnaires to collect the data. The analysis of the data was done using descriptive and inferential statistics.

Findings: The correlation results indicated that foreign direct investment is positively and significantly associated with the growth of the hospitality sector ($r=.706$, $p=.000$). Foreign direct investment can explain 37.9% of the variations in the growth of the hospitality sector in the USA. The correlation results showed that foreign direct investment is positively and significantly related to the growth of the hospitality sector in the USA ($\beta=0.156$, $p=0.009$).

Conclusion: It is concluded that foreign direct investment is satisfactory in explaining the growth in the hospitality sector among the hotels in the USA. The results showed that when the foreign direct investment improves by one unit, the growth in the hospitality sector among the hotels in the USA will increase by 0.156 units while other factors are held unchanged. Foreign direct investment plays a significant role in developing the hospitality sector in the USA.

Recommendations: The government needs to put strategies that will increase foreign direct investments in the country. The government should encourage foreign investors by offering them favorable taxes, adequate raw materials, labor and adequate security so that they may attract more investors to the country. The government should consider making policies that are conducive for businesses in the country. The tax payable by firms needs to be adjusted from time to time to attract more investors. The firms' net profits should be considered before making the taxation policy.

Keywords: *Foreign direct investment, growth, hospitality industry, USA*

INTRODUCTION

USA hotel and the tourist industry is one of the primary aspects of development in the services industry in the USA (Boora & Dhankar, 2018). The hospitality industry in the United States has been growing, with the rising number of international travelers visiting the country for leisure trips and with the rising business travel within the country. The total value of bookings increased from USD 116 billion in 2009 to USD 185 billion in 2017. The hospitality sector in the USA has aided in the growth of the country significantly (Winter & Daly, 2019). The hospitality industry has been considered one of the key segments that is projected to continue increasing the GDP. Kuthiala (2021) notes that the hospitality sector contributes to more than 18% of the GDP in the USA. More investors are taking advantage of the growth of the hospitality sector and putting more of their investments in the sector. Even though the hospitality sector was highly interpreted by the outbreak of the COVID-19 pandemic, it has started showing growth.

The hospitality sector has been proliferating in the last few years, bringing in huge incomes from overseas and local tourists in lots of regions of the USA (Kuthiala, 2021). There was a crucial rush to inbound tourists in the USA in 2016 and a double-digit improvement coming from overseas tourists to the USA in the same year. Hospitality is among the 3rd biggest earnings generators of foreign exchange for the USA and likewise offers employment to the biggest numbers of the workforce. Conde Nast Tourist, one of the most embellished traveling publications, ranked the USA as one of the best destinations worldwide. The USA hospitality sector noted a growth of 24.6% between 2010 and 2018 (Rawat, Malhotra & Joshi, 2019). Thus, the increase in foreign investments can further enhance the growth of the hospitality sector in the country.

A foreign direct financial investment is a purchase of an interest in a firm by a firm or an investor found outside its boundaries (Calvet, 2017). It is not usually used to define a stock investment in a foreign business. Pradhan (2018) argued that the tourism and hospitality industry is amongst the leading 16 markets in the USA to draw in the largest Foreign Direct Investment. From June 2010 - October 2019, the hotel and tourism industry drew in about US\$ 10.5 billion of FDI, as per the information released by the Department of Industrial Policy and Promotion. With the increase of international tourists and the capability in realizing the USA's possibility, a lot of firms have invested in the tourism and hospitality sector. Foreign Direct Investment IMF offers the major extensively shared and approved meaning of FDI (Pacheco-López, 2020). A direct investment

connection is developed when the direct investor has 10% or even more of the regular shares or voting power of a firm abroad (Lipsey, Feenstra, Hahn & Hatsopoulos, 2020). The direct investment consists of not only the preliminary transaction developing the FDI partnership between the direct investor and the direct investment firm but additionally all the subsequent capital transactions between them and amongst associated businesses which are resident in various economies.

The US government has been embarking on different financial and fiscal changes to attract international investors (Archana, Nayak & Basu, 2018). As a result of these changes, FDI not only increased in quantum but its composition has reformed significantly. The segments attracting optimum FDI are the service industry, telecommunication, computer system software, and hotel and tourist to name a few. Currently, the hotel and tourism sector comprise of 3.28% share of overall FDI equity inflows. Foreign direct investment is critical in supporting developing economies to join in international trade by facilitating the flow of capital, skills, and knowledge (Wu, Ma & Zhuo, 2019). Based on the presented background, the study examined the effect of foreign direct investment on the growth of the hospitality industry in the USA.

LITERATURE REVIEW

A study by Boora and Dhankar (2017) discovered that foreign direct investment is a crucial factor for the hospitality growth of the Italy hotel market as it normally often tends to improve the capital amounts available, increases performance and generates job opportunities. FDI is also crucial in updating modern innovation, abilities and managerial skills in numerous segments of the industry and additionally within the total economy. The research attempts to analyze the status, duty and advantages of FDI in the development and growth of the Italian hotel sector. The hotel and tourist sectors burgeoning growth have an influence on the economy of Italy that are significant when analyzed from an economic viewpoint. Deemed as a multidisciplinary task consisting of numerous sectors and drawing upon a variety of capabilities, the advantages of FDI are all over a broader area of culture as contrasted to those from various other segments of the economy. FDI ought to thus play a substantial duty in improving the hotel sector in the USA and other nations, by offering the necessary funding and infrastructure which is required, like airport terminals, highways and associated modern innovations which are all on any occasion, essential to tourist growth and key to hospitality development.

Nam (2018) argued that foreign direct investment is needed for a nation when domestic capital is not enough to improve hospitality development. The USA requires considerable foreign funding inflows to attain hospitality growth. In developing economies such as the USA, Hotel & Tourist service contributes substantially to the nation's GDP in addition to Foreign exchange Incomes. The USA has substantial capacity to end up being a preferred tourist location internationally. Its rich and diverse social heritage, bountiful natural deposits and biodiversity give many tourist attractions. Since 1991, Foreign Direct Investment in developing nations has been the leading source of outside financing and has ended up being a vital element of nationwide growth methods for mostly all the developing nations worldwide. The contribution of FDI in the Hotel & Tourist industry is improving the hospitality development or not, this knowledge thrust of the researcher develops the passion in performing this research. In this study, an attempt is made to examine the idea of FDI and its influence on the Hotel & Tourist sector in the USA. The research is anchored on only secondary sources of information and it covers the duration of the current 10 years. The research reveals a favorable connection between Foreign Direct investment Equity inflows and foreign exchange Earnings and the Gross Domestic Product of the Resort & Tourist industry in the USA throughout the research.

Aggarwal and Padhan (2017) examined the relationship between hospitality sector growth, FDI trickling down to the tourism market and actual hospitality development in Pakistan. The results help the occurrence of the tourism-led development theory in Pakistan. However, we did not discover any kind of considerable influence of FDI flows to the tourist sector on the hospitality development in the nation. That outcome may be because of the reduced quantum of FDI equity flows to the hotel and tourism sector in Pakistan. It is advised that the policymakers in the nation are required to concentrate on the hospitality industry growth and its promotion in the global market.

Ali and Malik (2019) discovered that in the background of broadening economies and in the race of attracting higher investments and enhancing exports, it comes to be important to evaluate the association between Foreign Direct Investment and hospitality development concerning the output of the economy. Several types of research have been performed for examining the relationship and impact of FDI on the development of the hospitality industry. The research targets at analyzing the impact and connection of FDI and hospitality growth with each other at the sectoral degree. The impact is determined through Panel co-integration test complied with the Random effects version.

Granger causality examination is likewise put on analyzing the causation of each of these. The outcomes suggest that hospitality growth has an effect on FDI yet FDI does not have an influence on hospitality growth at the sectoral level.

Michalet (2018) examined the components of internal foreign direct investment stock in the Turkey hospitality industry. A panel gravity model is utilized to reciprocal internal FDI stock between Turkey and 19 investor nations in hotels and the restaurant market. Outcomes reveal that bilateral inward FDI stocks between Turkey and investor nations are favorably impacted by their income and are vice versa symmetrical to the range in between them. It is also discovered that disparities between Turkey and the investing nations in regards to taxes, labor costs, the abundance of skilled labor, supply of public goods, and overall FDI supply likewise play a considerable duty in understanding the foreign location decisions. Lastly, outcomes reveal that Turkey is specifically successful in drawing in FDI in the hospitality market from French-speaking nations with a common border and cultural closeness to Turkey.

A study by Mishra, Rout, and Mohapatra (2020) found that tourism is an essential industry providing foreign exchange for China's economy and contributing considerably to GDP. It is functioning as a harbinger of 'much more inclusive development in China by boosting other markets inside the economy and generating work in different segments like hospitality, travel, and amusement. Additionally, it is fulfilling the long-lasting socio-economic goals of China's economy by incorporating individuals at the nationwide level and developing worldwide sensitivity. Offered the function of the traveling & tourist industry in 'inclusive development', the China government has taken different campaigns for promoting domestic and global investments in this market. Currently, the study intends to reveal the current contribution of Foreign Direct Investment in facilitating tourism in China, show the difficulties of tourism in China, and highlight concerns that are worthy of the attention of policymakers for attaining comprehensive development via the tourism industry.

Tang (2020) conducted a study on the principle of foreign direct investment and its contribution to the Singapore economy, specifically, the hospitality industry in the FCT was assessed. The study adopted a research approach and three study theories were developed to lead the research. The research targeted all the 5-star resorts in Singapore's capital city and consequently adopted a census-based strategy. A semi-structured survey was sent using e-mail to the hotels; just 30 of the

hotels reacted and were utilized for the study. Data developed from study questionnaires were evaluated utilizing detailed statistics. Pearson- moment relationship and multiple regression analysis were utilized to check out the research hypotheses. The results of the research disclosed that the variables are considerably correlated at $P < 0.01$ representing a considerable level of partnership between the variables. The regression evaluation revealed that technical take advantage is completely substantial at $P < 0.05$, Work generation is significant at $P < 0.05$ and performance is considerable at $P < 0.01$. The research developed that FDI in the hospitality industry is contributing to Singapore's economy in methods such as innovation, employment and productivity. Nonetheless, the researchers concluded that the host country needs to improve its level of human funding to enhance its absorptive and production capacity to leverage the presence of Transnational Firms to promote hospitality development.

Hussain and Soni (2019) argued that the hospitality industry holds tremendous potential for the USA economy. It can provide impetus to various other industries via backward and forward affiliations and can generate substantial revenue incomes for the nation. Liberalization policies have brought about rapid development in FDI flows recently. Based on the advantages related to FDI numerous developing, well-established nations compete fiercely for FDI. They try to draw in international investors by supplying fiscal and financial motivations, taking on business restructuring and economic reforms and welcoming foreign investors in the privatization of hospitality systems. The USA hospitality sector is interwoven with the nation's monetary growth. As GDP continues to mature, it boosts essential infrastructure such as transport systems, and holiday accommodation systems which are essential to sustain the hospitality sector. 100% FDI is allowed in the hospitality market in the USA according to certain authorizations. Restaurants, beach hotels and tourist complexes that facilitate lodging and catering to the tourist are the segments that have been obtaining the optimum quantity of FDI inflows in the past couple of years.

Falade, Obalade and Dubey (2020) found that foreign direct investment is the essential driver for hospitality improvement in developing nations. The relationship between Foreign Direct Investment and hospitality improvement is a subject of excellent interest in the sector of global growth. In the situation of volatile flows of international capital, the stability of FDI comes out as a reliable network to enhance development in upcoming nations, especially in connection with least developed nations. The government chose to embrace hospitality agenda that would certainly adhere to 5-year strategies. Every 5-year strategy was concentrated on specific segments of

hospitality that the government felt required to be developed for the nation's development. The government used an interventionist plan and dictated a lot of the norms of operating a business by preferring particular markets and overlooking others. Foreign direct investment remains in comparison to portfolio investment which is a passive investment in the securities of another nation like stocks and bonds.

Liu and Wu (2019) performed research on the expanding significance of foreign direct investment in tourism for developing nations and its viewed growth significance. The research explores tourist FDI and poverty relief in Taiwan. The relative contribution of foreign versus locally owned hotels to growth and destitution alleviation. The research gives empirical proof of the relative attributes, performance, and advantages of international investments, recommending that various types of hotel ownership have complicated benefits and drawbacks for poverty alleviation. FDI was concentrated in bigger, upmarket hotels, which often tended to use more personnel, pay greater wages, and offer more training. Local food purchases were similar throughout hotel ownership types, as were local philanthropic efforts, although there were distinctions in strategy. Some resident foreign proprietors were involved in successful best practice community-linked businesses, driven by social service and ecological principles.

Kumar (2019) argued that foreign Direct Financial investment is claimed to have a favorable influence on the growth of the hospitality market in developing nations. It assists in developing job creation and favorably influence local economies. The study results revealed that the thriving of the hospitality sector in developing nations relies upon the degree of Foreign Direct Investment. Although several developing nations have all-natural functions like coastlines, rivers, and other natural resources, domestic funding to invest in those resources is unavailable. Tourism reveals specific promises for developing nations. The hospitality sector is one of the biggest and most rapidly-growing sectors in the international economy and an essential driver of socio-economic growth. It has been used in other nations as an economic driver for development which can widely support poverty alleviation.

Wang, Dai and Xu (2018) argued that international hospitality investment is a crucial indicator of tourism's expanding importance, and the concern is what drives the investment. This study relates Iceland and Norway to the Nordic nations and several OECD nations. The study develops via econometric modeling how foreign direct investment in the hospitality market is driven by

elements like the economic and market size of the headquarters home nation, value added tax increase, and skilled labor of the headquarters home nation, contrasted to that of the host nation. Improved understanding of figuring out aspects of this development from a variety of readily available metrics will notify tourism administration both from a business and public policy viewpoint. The study concluded by detailing just how and which elements should be monitored to direct investment in the hospitality market of quickly arising destinations.

RESEARCH METHODOLOGY

The study embraced the descriptive research design. The descriptive research design was used to get the opinions of the respondents regarding the effect of foreign direct investments on the growth of the hospitality sector. The target population was 413 employees from the Ministry of Hospitality in the USA. The sample size was 2013. The study used questionnaires to collect the data. The analysis of the data was done using descriptive and inferential statistics. Tables were used to present the study results.

RESEARCH FINDINGS

The correlation analysis and regression analysis were used to show the findings of the study.

Correlation Analysis

The correlation results were presented to show the association between the variables. Table 1 presents the study results of the correlation analysis.

Table 1: Correlation Analysis

		Growth of Hospitality Sector	FDI
Growth of Hospitality Sector	Pearson Correlation	1.000	
	Sig. (2-tailed)		
FDI	Pearson Correlation	.706**	
	Sig. (2-tailed)	.000	1.000

The correlation results from Table 1 show that foreign direct investment is positively and significantly associated to the growth of the hospitality sector ($r=.706$, $p=.000$). This implied that an increase in foreign direct investment leads to an enhancement of the hospitality sector among the hotels in the USA. This concurs with Kumar (2019) who articulated that foreign direct

investment is claimed to have a favorable influence on the growth of the hospitality sector in many nations and it assists in job creation and favorably influences local economies.

Regression Analysis

The regression analysis presents the relationship between the variables. The study results of model fitness are presented in Table 2.

Table 2: Model Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.181a	0.379	0.312	0.0000

The results from Table 2 show that foreign direct investment was found to be satisfactory in explaining the growth in the hospitality sector among the hotels in the USA. This was supported by the coefficient of determination, also known as the R square of 0.379. This implied that foreign direct investment explains 37.9% of the variations in the growth of the hospitality sector among the hotels in the USA. The study results of the analysis of variance is summarized in Table 3

Table 3: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.125	1	4.125	158.5021	0.009
	Residual	5.231	201	0.026		
	Total	9.356	202			

The results in Table 3 show that the overall model was statistically significant. The results imply that foreign direct investment is a good predictor in explaining the growth of the hospitality sector among the hotels in the USA. This was supported by an F statistic of 158.5021 and the reported p-value of 0.009 which is less than the conventional probability significance level of 0.05. The regression coefficient is depicted in Table 4

Table 4: Regression of Coefficient

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.355	0.058		6.164	0.001
FDI	0.156	0.037	0.1452	4.809	0.009

Based on the results presented in Table 4, it was found that foreign direct investment is positively and significantly related to the growth of the hospitality sector among the hotels in the USA ($\beta=0.156$, $p=0.009$). This was supported by a calculated t-statistic of 4.809 which is larger than the critical t-statistic of 1.96. The results implied that when the foreign direct investment improves by one unit, the growth in the hospitality sector among the hotels in the USA will increase by 0.156 units while other factors are held unchanged. Tang (2020) posited that FDI in the hospitality industry is contributing positively to the economy in methods such as innovation, employment and productivity. Hospitality is among the third biggest earnings generators of foreign exchange for the USA and likewise offers employment to a high number of citizens.

CONCLUSION

Based on the findings, it is concluded that foreign direct investment is satisfactory in explaining the growth in the hospitality sector among the hotels in the USA. It was noted that foreign direct investment explains 37.9% of the variations in the growth of the hospitality sector among hotels in the USA. The results showed that when the foreign direct investment improves by one unit, the growth in the hospitality sector among the hotels in the USA will increase by 0.156 units while other factors are held unchanged. The hospitality industry is contributing positively to the economy in methods such as innovation, employment and productivity. FDI plays a significant role in developing the hospitality sector in the USA and other nations, by providing the necessary resources and infrastructures like worldwide airports, highways and modern technologies which are important to hospitality growth.

RECOMMENDATIONS

The government needs to put strategies that will increase foreign direct investments in the country. The host nation needs to enhance its level of human resources to enhance its absorptive and

production capability to leverage on the existence of global business to foster hospitality development and the policy circle in the nation needs to concentrate on hospitality industry development and its promotion in the international market. The government should encourage foreign investors by offering them favorable taxes, adequate raw materials, labor and adequate security so that they may attract more investors to the country. The government should consider making policies that are conducive for businesses in the country. The tax payable by firms needs to be adjusted from time to time to attract more investors. The tax payable determines the net profits level, showing whether the financial performance would increase or decrease, influencing the investors' decision-making. Thus, the firms' net profits should be considered before making the taxation policy.

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