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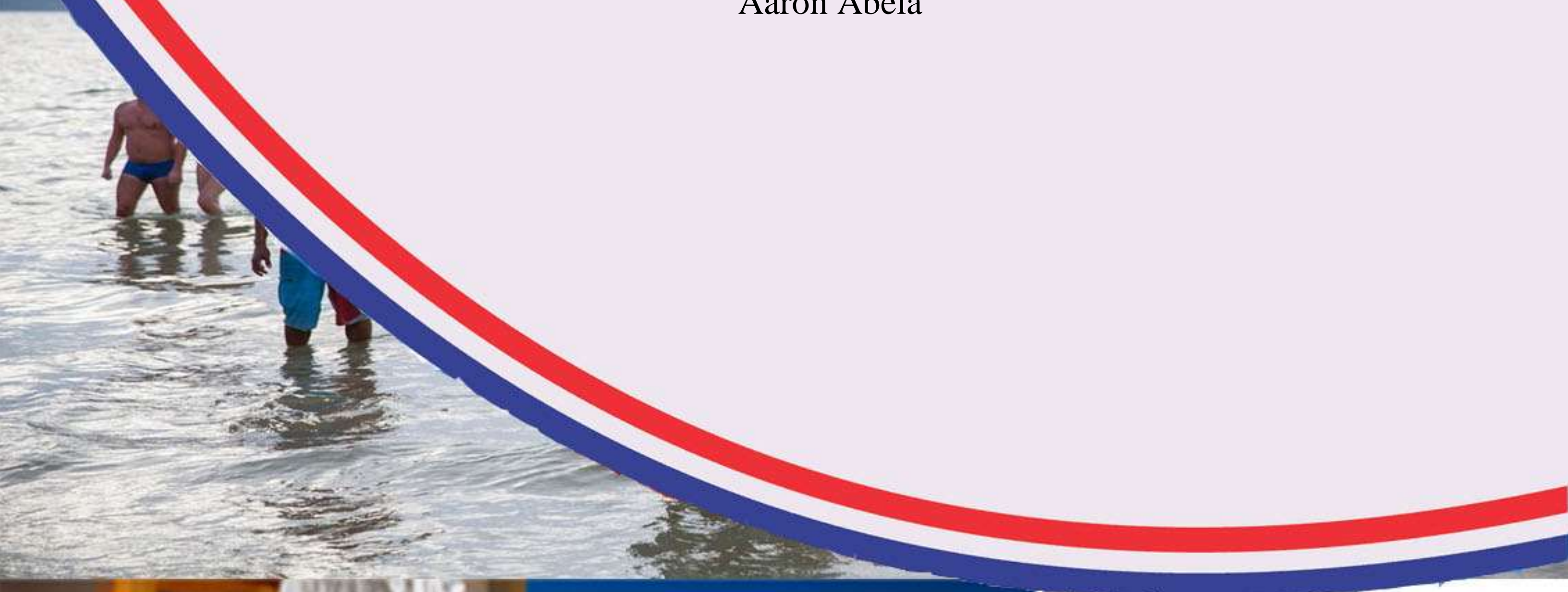

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Abstract

Purpose: The study sought to analyze the impacts of foreign direct investments on the hospitality sectors in Ethiopia.

Methodology: The study adopted a desktop methodology. Desk research refers to secondary data or that which can be collected without fieldwork. Desk research is basically involved in collecting data from existing resources hence it is often considered a low cost technique as compared to field research, as the main cost is involved in executive's time, telephone charges and directories. Thus, the study relied on already published studies, reports and statistics. This secondary data was easily accessed through the online journals and library.

Findings: The results show that showed that the success of the hospitality industry in developing countries depends on the levels of foreign direct investment. Although many developing countries have natural features such as beaches, rivers, and other natural resources, local capital to invest in those resources is unavailable. The tourism industry is one of the largest and fastest-growing sectors in the global economy and a key driver of socio-economic development, as it is labor-intensive and stimulates SME growth and investment. It has been used in other countries as an economic driver for growth which can widely support poverty reduction.

Unique Contribution to Theory, Practices and Policies: The capital market theory, investment development path theory and the eclectic theory may be used to anchor future studies in the tourism sector. The study results will also benefit other stakeholders such as the policy makers as well as researchers and scholars from different parts of the world. The top management of hospitality management companies in the country will also use the study findings to improve tourism performance in all their activities and programs. The study recommends that the adoption of effective social protection development policies in the tourism sector will help to improve efficiency in their major operations and activities.

Keywords: *Foreign Direct Investments, Hospitality Sectors, Ethiopia.*

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INTRODUCTION

Tourism is an important poverty reduction tool that can create jobs that attract youth employments, create jobs for women, boost the economy, encourage investment, decentralize development activities, promote the wealth, beauty, rich culture and heritage of a country(Davison,2015). Tourism is an industry of industries and Ethiopia stands to benefit greatly from a culturally, vibrant, inclusive sustainable tourism industry. Tourism has emerged as a significant export for many developing countries. There exists a consensus that tourism has not only increased the foreign exchange income but has improved employment and stimulated growth, thus triggering the growth in all sectors of the economy (Vanegas,2015). There exists growth, thus triggering the growth in all sectors of the economy. There exists generally a belief that tourism has a significant role to play in developing countries to achieve growth and sustainability. Foreign Direct Investment establishes a lasting interest in or effective management control over an enterprise.

Foreign Direct Investments is net inflows of investment undertaken to acquire a lasting management interest in a firm conducting business in any other economy but the investor's home country. Emphasis is also placed on the fact that the 10% threshold commonly referred to is recommended to ensure statistical consistency across countries (Cro,2020). For Many developing countries are looking to tourism as a potentially promising avenue for economic and human development. This is a relatively new position for some countries, and reflects the rapid increase in tourism in terms of both numbers of arrivals and revenues for several economies in recent years. Traditionally, tourism was placed below manufacturing or agriculture, since it was not seen as a significant or appropriate source of growth (Dauda,2019). In contrast, today a quiet but significant reappraisal is taking place which values tourism as a potential means of earning export revenues, generating large numbers of jobs including for young people and women promoting economic diversification and a more services-oriented economy helping to revive declining urban areas and cultural activities and opening up remote rural areas. According to the World Trade Organization foreign direct investment (FDI) occurs when an investor based in one country acquires an asset in another country with the intent to manage that asset (Makoni,2015). The management dimension is what distinguishes FDI from portfolio investment in foreign stocks, bonds and other financial instruments.

The internalization of an economy that was once characterized by its foreign trade flows and by the movement of people, nowadays results in an intensification of Federal Direct Investment (FDI) movements. Globalization and neo-liberal policies including liberalization and privatization, have generated a significant growth of FDI in recent years (Sokhanvar,2019). Despite the increase of globalization in the Tourism industry, there is surprisingly little empirical research on the impact of FDI. Many studies about FDI exist, but only a few analyze the Tourism sector and its implications. More and more countries worldwide try to attract FDI to promote their growth. FDI is a means to finance new structures and equipment and allow a transfer of more advanced technology and forms of management, in addition to the multiplier effects it provides. It is crucial for countries to understand what drives companies to invest aboard, given that FDI contributes to their economic growth and development (Falk,2016). Ethiopia is the second largest market in Africa, with a population of around 102 million people and a rapidly growing middle class with a

relatively stable climate for investors lower levels of corruption compared to the regional level. Ethiopia is rich in natural resources and extremely fertile several governmental policies aimed at attracting FDI inflows are in place Ethiopia is a member of the Multilateral Investment Guarantee Agency (MIGA), foreign investors have the right to make remittances out of the country in convertible foreign currency at the prevailing rate of exchange, fiscal incentives. The country has the second largest labor force in Africa in terms of number of people, with low salary levels the economy is now in a phase of diversification. FDI inflows to Ethiopia declined by 6% to USD 2.4 billion in 2020, despite the fact that they accounted for more than a third of foreign investment in the sub-region (Gebremariam,2022). In total, FDI stock was estimated at USD 27.4 billion in 2020. Manufacturing, agriculture and hospitality industries attracted the highest shares of investment in 2020. According to UNCTAD' Investment Trends Monitor, global FDI flows rebounded strongly in 2021, but FDI flows to African countries (excluding South Africa) rose only moderately. The government has launched a program to facilitate foreign investment in the production of personal protective equipment (PPE), and several Chinese companies have already started production. Most foreign investment is directed towards the oil refining, mining, real estate, manufacturing and renewable energy sectors (Emako, 2022). The country has also taken advantage of the crisis in Bangladesh's textile sector to attract foreign textile companies. China is one of the largest investors, accounting for 60% of new FDI projects approved, with significant investments in manufacturing and services. The conflict in the Tigray region, political instability and the slowdown in debt restructuring negotiations are expected to discourage investors in the short term

There are a number of constraints to foreign investment namely the high interference of the State in the economy, poor condition of infrastructure, difficulties related to land acquisition, strict foreign exchange controls very high transaction costs and weakness of institutions. The Ethiopian government keeps exercising full control over the services sector. Ethiopia has been ranked 159th worldwide, for the ease of doing business in the World Bank's 2020 Doing Business Report (Ali,2020). This position was the same that the country occupied a year earlier. Nevertheless, Ethiopia made progress in registering properties. Among others, the country improved the quality of its land administration system by publishing the official list of documents required for property registration (Jima,2018). Significant progress has been made in terms of transport infrastructure and electricity production in order to improve Ethiopia's attractiveness. The Grand Ethiopian Renaissance Dam (6,000 MW) on the Blue Nile aims at increasing hydro-electric capacity to 37,000 MW by 2037. The impending privatization of the state-owned railway, maritime, air transport, logistics, electricity, and telecommunications sectors, is expected to boost private investment, as is the creation of special economic zones. The new investment law adopted in 2020 should further strengthen the business environment (shumet,2020). The country benefits from abundant and low-cost trainable labor, and enjoys a strategic location giving access to lucrative markets in the Middle East and Europe but it depends on Djibouti for its access to the red sea and Suez Canal.

Statement of the Problem

A significant part of tourism's development potential stems from the fact that it links together a series of cross-cutting activities involving the provision of goods and services such as accommodation, transport, entertainment, construction and agricultural and fisheries production. Its industry structure encompasses a wide diversity of players, ranging from global TNCs to small and medium-sized enterprises (SMEs). This enables participation in the industry at a number of different scales and levels of the market. In addition, the fact that the consumer comes to the producer, rather than the other way around enables even the smallest transaction to be part of the global economy. every sale to a tourist, be it a fruit or a haircut, represents an export. This constitutes an important opportunity, particularly for small enterprises that would otherwise find it difficult to break into the global supply chain. If it is organized properly, tourism should offer significant opportunities for poverty reduction through its income-generating and job-creating effects alone. Tourism is a far-reaching and cross cutting activity On the other hand, tourism is a sensitive sector that is vulnerable to external shocks economic, environmental and political as well as potentially creating problems of its own. Its cross-cutting nature can also entail potential social and economic costs to communities and to the environment. Its employment potential is not always best exploited: wages can be low and human resources practices generally need to be improved. Tourism has also been associated with unsavory or even criminal activities, or more generally with an undermining of legal systems in Ethiopia.

The financial system in Ethiopia is relatively underdeveloped by western standards, even though progress has been made. Despite some recent improvement Ethiopia business freedom remains constrained by a burdensome regulatory environment. Corruption in Ethiopia remains in high levels. Corruption is evident in all the sectors and levels of government. Ethiopia is still considered a transit country for the traffic of arms, contraband and human beings. The economy remains vulnerable on several fronts due to tax evasion and the lack of anti-money laundering laws. The resolution of the property problem in Ethiopia is obstructing foreign investors. The process of the denationalization of land and national buildings, medium and large-sized national enterprises in industrial sectors with intensive capital, and strategic sectors like energy, water and transport, has been slow. Weak Points

Theoretical Review

This study will benefit from the capital market theory which was proposed by Aliber (1971), investment development path theory by Dunning (1981), the eclectic theory by John Dunning (1977)

Capital Market Theory

According to this theory, foreign direct investments exists because of mobility of some factors of production hence such mobility leads to location-related differences in the cost of factors of production. This theory, also sometimes referred to as the currency area theory is considered one of the earliest theories which explained FDI. It postulated that foreign investment in general arose as a result of capital market imperfections. FDI specifically was the result of differences between source and host country currencies. Weaker currencies have a higher FDI-attraction ability and are

better able to take advantage of differences in the market capitalization rate, compared to stronger country currencies. Source country MNCs based in hard currency areas can borrow at a lower interest rate than host country firms because portfolio investors overlook the foreign aspect of source country MNCs. This gives source country firms the borrowing advantage because they can access cheaper sources of capital for their overseas affiliates and subsidiaries than what local firms would access the same funds for.

The capital market theory is a part of portfolio investment theory and is considered one of the oldest theories that explain the idea behind expansion of firms abroad. According to this approach, FDI is determined mainly by interest rate and the value of host country's currency. Firms are more likely to expand abroad when their currency value in the home country is strong. While, firms that hosted by countries with have a weak currency avoid investing abroad Moreover, higher currency fluctuations in the host countries encourage foreign firms to borrow money at lower interest rate than domestic companies. The capital market theory explained the reasons behind firms' investment abroad where he mentioned three situations which encourage firms to expand their activities overseas. Firstly, lower undervalued exchange rate in the host country which allows lower production costs in the host countries. This theory adds insights to our study in that it recognizes Foreign Direct Investments as the basis on which tourism is a main source of development in a country.

Investment Development Path Theory

The investment development path theory aimed to explain the relationship between country's investment position and its volume of development. This theory assumes that the investment conditions for local and foreign firms are changing resulting of country development. These changes implicitly influence the volume of inward and outward FDI in the country. The investment development path theory is based on two main assumptions. FDI activities in the host country. Second, there is an interactive relationship between ownership advantages of local firms and multinational firms with locational advantages of countries .According to this theory, the interactive relationship between countries can be classified into five stages of development: The first stage is mainly concerned with developing countries in this stage the level of inward and outward investments is limited as investors would prefer accessing these countries through trade, and most foreign firms that expand in these countries are resource seeking firms, especially in case of insufficient locational advantage. Thus, the government at this stage should be trying to promote macroeconomic policies, improving basic infrastructure, focusing on the upgrading of human capital and removing some market restrictions. Consequently, due to improvements in locational advantages of these countries, the pattern of FDI inflows increase. This theory adds insights to our study in that it recognizes that government should be able control the foreign development investments so as to ensure proper development of the country through the tourism sector.

The Eclectic Theory

The theory posits that firms undertake FDI when the advantages of Ownership, Location and Internalization combine to make it appealing to undertake FDI. Ownership advantage is the benefit that a company gets due to its ownership of some special asset, such as a powerful brand,

intellectual property, technical knowledge or management ability. Location advantage is the benefit of setting an economic activity in a place because of the natural or acquired characteristics of the locale. Internalization advantage is the gain that arises from undertaking a business activity in-house rather than leaving it to a relatively inefficient market. In order for a firm to engage in foreign direct investment, it must simultaneously fulfill three conditions. The firm should possess net ownership advantages over other firms serving particular markets. These ownership advantages are firm specific and exclusive to that firm in the form of both tangible and intangible assets such as trademarks, patents, information and technology, which would result in production cost reductions for the firm, enabling it to therefore compete with firms in a foreign country.

Empirical Review

Odidi (2020) conducted a study to establishing the moderating effect of inflation on the relationship between foreign direct investment, financial market development and economic growth in Kenya. Secondary data collected for analysis from KNBS economic surveys, World Bank reports, central bank of Kenya's reports, economic journals and annual economic survey reports for a period of 36 years 1980 to 2016. Data analysis carried out using SPSS implementing descriptive and inferential statistics; the study findings revealed that the linear financial market development and foreign direct investment have positive effect on economic growth in Kenya. However, the interaction term between financial development and inflation rate has a negative on economic growth. The marginal effect of FDI evaluated on inflation rate resulted to a positive interaction term. In conclusion, the explanatory effect (adjusted R squared) increased signifying the presence of the moderating effect. Therefore, the study concluded that inflation moderates the relationship between FDI, financial market development and economic growth in Kenya

Muli (2019) conducted a study to investigate the effect of foreign direct investments (FDI) on GDP and employment in Kenya. To address this problem, the study used time series data for FDI, GDP, employment and other variables as identified in literature for the period1990-2016. Diagnostic tests such as tests of unit root were done to achieve stationarity of the variables used in order to obtain reliable estimates. To address the objectives of this study, the ordinary least squares (OLS) method was used to explore the effect of FDI on both employment and GDP in Kenya. The study found out that, FDI was an important variable affecting both growth of output and employment in the country. The study recommended adoption of policies that can enhance the flow of FDI to ensure consistent improvement of the variables

Musyoka (2018) conducted a study to establish the effect of real interest rates, exchange rate, inflation and competitiveness on FDI in Kenya. Methodology: The study used annual time series data for the period 1970-2016. The sources of data included World Bank Indicators and Kenya National Bureau of Statistics annual reports. Data was collected for the variables real interest rates, exchange rates, inflation rate, competitiveness/ease of doing business and FDI. The data for all the variables was in percentage. The study employed ordinary least square regression technique to determine the effect of real interest rate, exchange rate, inflation and competitiveness on FDI in Kenya. Results: From the findings, the study concluded that real interest rates and exchange rates have negative and significant influence on FDI inflows into Kenya. Further, the study concluded

that competitiveness has a positive and significant influence on foreign direct investment inflows into Kenya. However, inflation was found to have insignificant influence on FDI.

Mugendi (2015) conducted a study to his study attempted to empirically examine the nature of FDI spillovers on domestic firms in Kenya. The study looked at the transmission mechanism, that is, both horizontal and vertical linkages. To achieve this objective primary data was collected from various firms in Kenya; this was from a sample of 204 firms from Nairobi, Nakuru, Mombasa and Kisumu cities. A panel of three years was taken, for the period 2010 to 2013. The data was captured using a structured questionnaire which was administered to various firms. A fact sheet was used to summarize the data collected before it was cleaned, coded and edited for completeness and accuracy. Thereafter analysis was done using descriptive statistics. The study found that foreign firms influenced domestic firm's productivity through both vertical and horizontal spillovers in Kenya. Foreign firms were found to channel horizontal spillovers through competition effect, demonstration effect and labor turnover effects. On vertical spillovers small firms were found to benefit most from selling of goods and services to foreign firms.

Munyao (2013) conducted a study to determine the competitive marketing strategies adopted by Kenya Investment Authority to attract foreign direct investment (FDI) in Kenya and to establish the challenges that KenInvet experiences in attracting foreign direct investment (FDI) in Kenya. Data was collected by me using an interview guide and qualitative analysis was done using content analysis. The interviewees were the senior management of the organization due to their immense knowledge in the field of the competitive marketing strategies adopted by KenInvet in attracting Foreign Direct Investments in Kenya. The study revealed that the Kenyan Government had contributed towards creating more in FDI through signing bilateral trade agreements that facilitate smooth trade and investment processes between countries. The government had enabled expansion of markets through membership of EAC and COMESA where investors would have access to a 600 Million people market. The study further revealed that the Government had improved regulations by abolishing import licensing requirements and provided good infrastructure such as the ports in Mombasa and Airports which have led to easy access of markets thus increasing investments. The study found that most of the investors were attracted to Kenya because of the economic environment i.e. macroeconomic drivers, good business environment such as ease in getting work permits, licenses, ease in doing business and low living costs.

Research Gaps

Conceptual Gaps

A conceptual gap is the missing gap of knowledge which is related to the role a variable play in an already existing body of knowledge and it is a sub-set of research gap. Odidi (2020) conducted a study to establishing the moderating effect of inflation on the relationship between foreign direct investment, financial market development and economic growth in Kenya. Muli (2019) conducted a study to investigate the effect of foreign direct investments (FDI) on GDP and employment in Kenya This two studies presented a conceptual gap since our study will Impact of Foreign Direct Investments on the Hospitality Sectors in Ethiopia.

Geographical Gap

A geographical gap is the missing piece or pieces in the research literature, is the area that has not yet been explored or is under-explored. Musyoka (2018) conducted a study to establish the effect of real interest rates, exchange rate, inflation and competitiveness on FDI in Kenya. Munyao (2013) conducted a study to determine the competitive marketing strategies adopted by Kenya Investment Authority to attract foreign direct investment (FDI) in Kenya. This two studies presented a geographical gap since our study was conducted in Ethiopia.

METHODOLOGY

The study adopted a desktop literature review method (desk study). This involved an in-depth review of studies related to impact of foreign direct investments on the hospitality sectors in Ethiopia. Three sorting stages were implemented on the subject under study in order to determine the viability of the subject for research. This is the first stage that comprised the initial identification of all articles that were based on Impact of foreign direct investments on the hospitality sectors in Ethiopia**.** The search was done generally by searching the articles in the article title, abstract, keywords. A second search involved fully available publications on the subject on impact of foreign direct investments on the hospitality sectors in Ethiopia**.** The third step involved the selection of fully accessible publications. Reduction of the literature to only fully accessible publications yielded specificity and allowed the researcher to focus on the articles that related to impact of foreign direct investments on the hospitality sectors which was split into top key words. After an in- depth search into the top key words (Impact, Foreign direct investments, hospitality Sectors, Ethiopia), the researcher arrived at 5 articles that were suitable for analysis. The results are from analysis of research papers done by:

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SUMMARY CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The study found out that the success of the hospitality industry in developing countries depends on the levels of Foreign Direct Investment. Although many developing countries have natural features such as beaches, rivers, and other natural resources, local capital to invest in those resources is unavailable. Tourism shows particular promise for developing countries. The tourism industry is one of the largest and fastest-growing sectors in the global economy and a key driver of socio-economic development, as it is labor-intensive and stimulates SME growth and investment. It has been used in other countries as an economic driver for growth which can widely support poverty reduction.

Recommendations

Since the capital market theory, investment development path theory and the eclectic theory were useful on giving insights on hospitality and tourism the researcher recommends that the theories can be used in the future for future studies in the information sector.

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