MACROECONOMIC ENVIRONMENT AND GREENFIELD FOREIGN DIRECT INVESTMENT OF HOTEL BRANDS

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Abstract

The powerful attraction of foreign direct investment (FDI) is particularly important for further development of tourism. The strategically focused attraction of FDI in tourism has a much higher significance because of the multiple effects in relation to other segments of the economy. In this context, it is necessary to highlight the investment engagement and the presence of globally branded luxury hotels.

The purpose of the study is to assess the macroeconomic environment, the effects of greenfield FDI in tourism and, consequently, the presence of global hotel brands using the comparative analysis of the selected countries as the methodological basis of this study. The research results indicate that a favorable macroeconomic environment plays an important role in attracting foreign capital. Countries that have a more favorable macroeconomic environment attract more greenfield FDI, and provide a greater presence of global hotel brands, and thus greater competitiveness. Also, the political stability, the encouraging macroeconomic business conditions, the elimination of administrative and legislative barriers, the elimination of the country's image as a corrupt destination and tourism staff education at all levels are particularly important for FDI in tourism.

Keywords: Greenfield foreign direct investment (FDI), macroeconomic environment, tourism, global hotel brands

1. Introduction

For making further investments in Croatian tourism as well as to further improve its competitive abilities, Croatia will have to ensure adequate measures to attract foreign capital and improve the country's overall economic picture in order to maximize the positive and minimize the negative aspects of the investment. The adequate measures of macroeconomic policy are those of crucial importance for anticipatory determining which type of foreign capital to attract into the country, which standards to stick to and how they will affect the overall economy.

Given the expectations of the Croatian government regarding the entry of foreign capital in tourism, the aim of this paper is to assess the role that macroeconomic environment plays in attracting FDI on the example of selected countries, the effects of greenfield FDI in tourism and, consequently, the presence of global hotel brands.

The authors' starting point of the research is the fact that countries with a favorable macroeconomic environment attract a higher level of greenfield FDI in tourism and ensure a greater presence of global hotel brands.

The methodological basis of the present work is based on a comparative analysis of the Republic of Croatia with selected countries in the period from 2001 to 2015, depending on the available data. In the analysis, for comparison with the Republic of Croatia, the countries that are competitive with Croatia are included considering their similar tourism product, the fact that they compete to attract tourists from the same source markets and taking into account the forecast of the World Travel & Tourism Council (WTTC) that considers these countries the greatest competitors of Croatia according to the forecasts for 2021.[1] The analysis also includes Turkey and Montenegro (the countries with upper middle income) as well as Cyprus and Greece (the countries with higher income). Moreover, the selected countries are direct competitors of Croatia in attracting the FDI.

The paper is divided into six logically connected parts. After the introduction, the overview of the existing research is provided. The third part of the paper presents a comparative analysis of the macroeconomic environment of selected countries. In the fourth part of the paper, given the lack of official data on FDI inflows on the sector level of selected countries, the presence and effects of greenfield investments in tourism according to the data of fDi Intelligence (a Financial Times subsidiary) for the period from 2003 to 2012 is analyzed.[2] Finally, in the conclusion, the research results are synthesized.

2. Research review

Despite the constant increase in the number of tourist trips and effects (increase in the number of tourists, increase in the number of overnight stays, the growth in tourism revenues) as well as the increase of FDI in the past 20 years, the area covered by FDI in tourism is still insufficiently explored. Sinclair (1991) argued that FDI in tourism is a "neglected area" of studies related to tourism; Zhang, G. (1999), who is considered a pioneer in the field of research of FDI in tourism, believes that his research will be academically significant for further research in the mentioned area[3]; the World Tourism Organization (WTO) stresses that FDI and tourism have just recently been defined and explained, so that FDI in tourism is considered a new and insufficiently explored area. Following that statement, the organization proposes some indicators for measuring FDI in tourism.[4] Dwyer et al. (2010) argue that the precise data on the number of FDI in tourism in the global tourism industry is missing. The above is a consequence of the fact that diverse and inter-related tourist activities make the compilation of statistics relating to tourism practically impossible.

Dunning and McQueen (1982) were the conductors of the pioneer research on the effects of FDI in tourism. The research was conducted in a sample of 418 five- and four-star hotels worldwide. The research results showed that larger hotels, the hotels located in the city and five-star hotels, generate more revenue per room. Foreign hotels have a significantly higher average level of added value compared to the local hotels. As for the foreign exchange costs, the research shows that architects and designers of transnational corporations use domestic materials wherever possible. Moreover, as regards the foreign labor employment in the countries, in the first years, managing positions were generally occupied by foreign workers, while domestic workers received other jobs/work. After the training, some of the most important positions can be taken over by domestic workers. Furthermore, the research has shown that the transfer of skills was an important factor in the development of the domestic hotel sector, especially in the four-star hotels where almost all senior staff received training and experience working in hotels owned by transnational corporations. Also, the hotels owned by transnational corporations in developing countries employ more staff per bed as opposed to the hotels owned by transnational corporations in developed countries (because of the differences in the economies of scale - in developed countries, the average hotel is about 50% bigger than in developing countries, the age of the hotel, capacity utilization rates or length of guests' stay). The evidence of a strong exploitation by transnational corporations has not been found.

So far, the United Nations Conference on Trade and Development (UNCTAD) has done the most extensive study that examined the direct effects, the indirect effects, the spillover effects and the microeconomic implications of FDI in tourism.[5] The study was conducted at global foreign hotels in Bhutan, the Dominican Republic, Kenya, Mauritius, Morocco, Sri Lanka, Tanzania and Tunisia. It was conducted through interviews and surveys that tested the hypothesis about the expected effects of FDI. The aforementioned study concluded that FDI and transnational corporations have the potential of significant contribution to the developing countries' tourist economy. They can provide access to tangible and intangible assets that are required in the developing countries to become important players in the global tourism market. But they are not a panacea and can only be effective as part of an appropriate overall policy framework.

Through interviews conducted with managers of 123 hotels in foreign and domestic ownership in Mozambique, Tanzania and Ethiopia, Fortanier and Van Wijk (2010), the impact of foreign investment on employment in the hotel industry was examined. They explored the quantitative effects (assuming that foreign hotels employ more staff) and qualitative effects (assuming that foreign hotels frequently carried out a training of employees, the transfer of knowledge and skills to the local employees, assuming that foreign hotels pay higher salaries and that the turnover per employee in foreign hotels is lower than in local hotels). The research results were positive: an increase in the number of the hotels leads to an increase in employment, but foreign hotels "snatch" the local hotels' best staff and were able to keep them for a long time. For this reason, local hotels do not invest in the knowledge of their employees. Foreign managers facilitate the improvement of the local staff skills because hotels often rotate them around the world to gather as much knowledge and high standards of service.

The International Finance Corporation (IFC) has explored the impact of two hotel investments in the tourism sector.[6] The analysis was performed over the Hyatt Regency Hotel in Kiev and the Monasterio Hotel in Machu Picchu, and it was focused on determining the payments the hotels made for staff salaries, utilities and fiscal burden; the hotel guests' consumption outside the hotel (transportation, retail, food and drinks, etc.); the hotels' direct and indirect creation of foreign currency; all the suppliers of goods and services in hotels in order to determine their number of employees, salaries and taxes, and the effects on families who receive salaries from the hotel and on those who are in the supply chain associated with hotels. The study also showed the costs that occur when operating in a poor business environment and when the sector is being poorly managed. The studied hotels have a significant impact on the local development of the two destinations. The investments in five-star hotels have diversified the offer of accommodation which enabled further growth of the tourism sector at the destinations. The hotels have also affected the business reputation of the destinations (after the opening of the Hyatt Regency hotel in Kiev, conference tourism has grown by 35%). Both hotels have also set high standards of social responsibility through donations of goods and services to the local community.

Among domestic research, it seems useful to point out the work of Bezić et al. (2010), who investigated the causal link between the number of foreign tourist arrivals and total FDI in the Croatian economy in the period from 1996 until 2008. The study results pointed to a one-way causal relationship between the number of foreign tourist arrivals and the total FDIs in the Croatian economy. They conclude that the FDI associated with the entry of major hotel brands mostly bypass Croatia, due to the low profitability of the hotel sector and unresolved ownership issues in tourist areas. They also believe that Croatia lost millions of euros worth of investments that could create thousands of new jobs because of its slow and inefficient administration.

Kunst (2011) analyzed the conditions and limits of the FDI in Croatian tourism. He concluded that Croatia did not distinguish itself in attracting foreign investment in its hotel and tourist offer, especially when it comes to greenfield investments. He also believes that maintaining a minimum continuous investment in Croatian tourism implies an increased turning to foreign investors who can only be attracted if current investment restrictions are removed. Closely related to the context of this work, he considers devastating the fact that there are only a few global hotel brands in Croatia.

It is also important to point out that most of the works focused on the issues of association of FDI and tourism development are based on examining the relationship of FDI and the number of foreign tourist arrivals and tourism revenues, i.e. the testing of so-called FDI led-tourism hypothesis (Salleh et al., 2011: 251). The available existing studies indicate different results of association of tourism development and FDI, those total and those aimed at tourism. Most of the works have proved a one-way causal relationship between FDI and the number of foreign tourist arrivals (Tang et al., 2007; Zhang et al., 2011; Selvanathan et al., 2012). There is also one-way causal link evidence of the number of foreign tourist arrivals to FDIs (Katircioglu, 2011), as well as the evidence of the two-way link between the observed variables (Salleh et al., 2011; Samini et al., 2013).

Even though there has been an increase in recent years, it can be concluded that the number of scientific papers which explore the relationship between tourism and FDI in tourism is rather scarce, especially in the domestic environment. The results obtained so far are dispersed and mixed. The reason for the above is in the economic effects, for example hotels, which vary from country to country, from city to city, depending on the conditions in a particular location. Also, the impact and significance differ depending on the hotel categorization because more luxurious hotels usually result in a major economic impact.

3. Macroeconomic environment as a prerequisite of attracting foreign direct investment

To understand the importance of FDI, it is important to consider the overall importance of tourism for the selected countries, as well as the factors of the macroeconomic environment for foreign investment.

3.1 The importance of tourism for the selected countries

Tourism is a specific resource that serves as a potential for the development of Croatia and the countries included in the comparative analysis of this paper. One of the ways of further development of tourism is certainly a more powerful attracting of FDI. This is especially true at the present time of scarce financial resources. Taking into consideration the economic conditions in the wider environment and the economic situation in which Croatia finds itself, it seems reasonable to assume that further development of Croatian tourism is largely dependent on foreign capital. The analysis of this study included those countries that are competitive to Croatia, considering the similar tourism product they are offering and given the fact that they compete to attract tourists from the same source markets. Thus, the analysis included two countries with upper middle income, Turkey and Montenegro, and two countries with high income, Cyprus and Greece. Also, the selected countries are direct competitors of Croatia in attracting FDI.

In world terms, tourism is a significant socio-economic phenomenon, but for the selected countries its development role is crucial. This is confirmed by the WTTC data. The contributions of travel and tourism to the GDP and employment in the selected countries are shown in the table below.

Table 1 The importance of travel and tourism to GDP in selected countries, year 2015

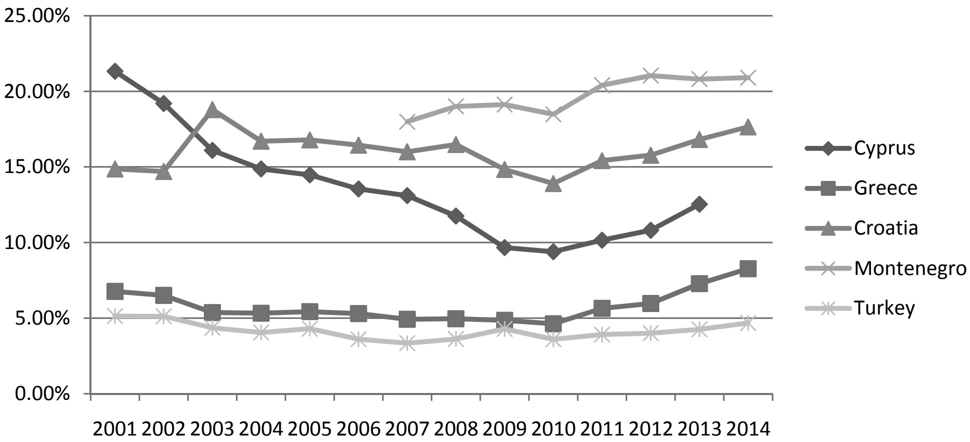
	Croatia	Montenegro	Turkey	Cyprus	Greece	Europe	World
Direct contribution to GDP (% of total)	10.1	11.3	5.0	6.4	7.6	3.5	3.0
The total contribution to GDP (% of total)	23.2	22.1	12.9	19.3	18.5	9.6	9.8

Source: WTTC (2016), "Travel & Tourism Economic Impact 2016"[7]

The table shows that the direct and total contribution of travel and tourism to GDP is much more important for the observed countries than for Europe and the world. They have the largest contribution to GDP of travelling and tourism in Croatia, they make up 23.2% of the total contribution to GDP. This is proof that the Croatian economy is the most dependent on tourism of all the surveyed countries. The next country is Montenegro, whose total contribution to GDP equals 22.1%, followed by Cyprus with 19.3%, Greece with 18.5% and Turkey with 12.9%. At the European level the contribution is of 9.6%, and at the global level of 9.8%.

It is possible to examine the importance of tourism for a given economy through the share of tourism revenues in the GDP, which reflects the relative importance of income for a specific economy and its international competitiveness. The above is shown in the figure below.

Figure 1 The share of revenues from international tourism in GDP (in %), 2001 – 2014



Source: Authors' calculations according to the data from the World Bank, Available at http://data.worldbank.org (Accessed on: May 31, 2016)[8]

It is interesting to note that in two of the most developed countries, as far as tourism is concerned, the share of revenues from international tourism in GDP is the smallest. In 2014, this indicator for Turkey was 4.7% and for Greece 8.3%. The largest share, and thus the greatest dependence of the economy on tourism, was recorded for Croatia and Montenegro. In 2014, the revenues of international tourism in the Croatian GDP equal 17.6%, while in Montenegro they equal 20.9%.

3.2 Analysis of the factors of FDI in the tourism sector of the observed countries

In continuation of this paper, the analysis is being made on the macroeconomic environment, the investment risk and credit rating, infrastructure, exchange rates, tax system and the interest rate of the Republic of Croatia, Greece, Cyprus, Turkey and Montenegro.

3.2.1 Macroeconomic environment

The interest of the authors, and thus the present work, involves an approach that can be used analytically and comparatively to evaluate the significance of the macroeconomic environment in terms of the contribution of greenfield FDI in tourism.

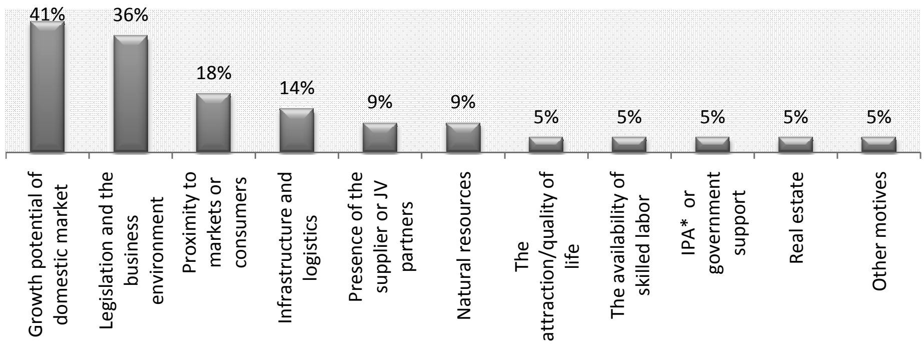
The overall economic system affects the inflow of FDI through a variety of economic characteristics within the country. These solutions include the characteristics of the labor market, social agreements and fiscal discipline which, among other things, determine the state investment and the balance of payments deficit that could affect the stability of the exchange rate.[9] Also, taxes and tax breaks that a country offers play an important role when considering the investment decisions for a particular market. The exchange rate policy also plays an important role because the exchange rates' variation may affect the entire property of the host country of FDI, the value of the gained profit and subsidiary export (Sekur, 2012: 172).

The macroeconomic policies play an important role in attracting foreign capital, as foreign investors direct their capital to countries where greater predictability dominates and where it is possible to implement a safer planning of returning the invested capital (Jovančević, Šević, 2006: 5). The goal of these policies is to create a macroeconomic stability, i.e. a sustainable economic growth, low inflation, nonrisky foreign exchange rates, low unemployment, fiscal discipline and adequate coverage of reserves (Neuhaus, 2006: 147).

The investment environment as a factor of foreign investment refers to a set of indicators of economic and market power of the country, development of its natural and human resources, and infrastructure development. It also refers to a set of indicators of political stability that affects the credit risk of the country, legislative transparency and government agencies' efforts to promote the FDI (Babić et al., 2001: 9).

The motives because of which the foreign investors decided to do the greenfield projects in Croatia in the period from 2003 to 2012 are shown in Figure 2.

Figure 2 The most important determinants of Croatian selection as a location for investment (the percentage of projects that led to the investment motives)



Note: a sample of 22 projects
IPA - Instrument for Pre-Accession Assistance
Source: fDi Intelligence from The Financial Times Ltd: FDI into Croatia, January 2003 to November 2012, p. 5[10]

In the period from 2003 to 2012, the growth potential of the domestic market, legislation and the business environment, and proximity to markets and customers were cited as the three key reasons for the investments in Croatia. Globally, these three key reasons are the most important determinants of investors' location selection.

The market size of a particular country (measured in GDP / PC) is increasing with the economic growth and it is encouraging foreign companies to increase their investments. Rapid economic growth leads to the high level of aggregate demand that stimulates the greater demand for investments, including the FDI (Zhang, 2001). Also, better economic performances in the destination country provide better infrastructure facilities, greater opportunities for profit and greater incentives to attract FDI.

3.2.2 Investment risks and credit rating

Every country is a potential destination to a foreign investor and his capital. But given that every investor is a rational investor, one of the most important criteria when choosing a country in which to invest their capital is the risk investment in the country as well as an expected return on the investment. A higher credit rating means a lower risk and at the same time a greater number of investors who are willing to invest in the economy (Kersan-Škabić, Mihovilović, 2006: 9). The credit rating of the analyzed countries is shown in the table below.

Table 2 Credit rating of the analyzed countries

	S&P	Moody's	Fitch Ratings
Cyprus	B- (stable)	CAA3 (positive)	B- (negative)
Greece	B- (stable)	CAA3 (stable)	B- (stable)
Montenegro	BB- (negative)	BA3 (stable)	No data
Croatia	BB (stable)	BA1 (negative)	BB+ (negative)
Turkey	BB+ (negative)	BAA3 (negative)	BBB- (stable)

Source: Made by the authors using the data from agencies' websites, April, 2014

The table shows that Cyprus and Greece currently have the worst credit rating. The Croatian rating is slightly better, but the fact still remains that it stands in a non-investment speculative rating category. Although Turkey currently has the best credit rating, it should be noted that it stands at the very bottom of the investment rating category.

When a potential investor decides to invest in a particular country, he will certainly want to see its general conditions. Very good sources of information are the reports of well-known global institutions such as the World Bank and UNCTAD. The evaluations of selected countries according to the most well-known reports are shown in Table 3.

Table 3 The ratings of selected countries in international indicators, 2015-2016[11]

	TICP Index 2015	IMD World Competitiveness Yearbook 2016	WB Doing Business 2015	WEF Global Competitiveness Index 2015-2016	Index of Economic Freedom 2016
Cyprus	32	-	47	58	20
Montenegro	61	-	46	67	72
Greece	58	56	60	81	119
Croatia	50	58	40	77	83
Turkey	66	38	55	45	73

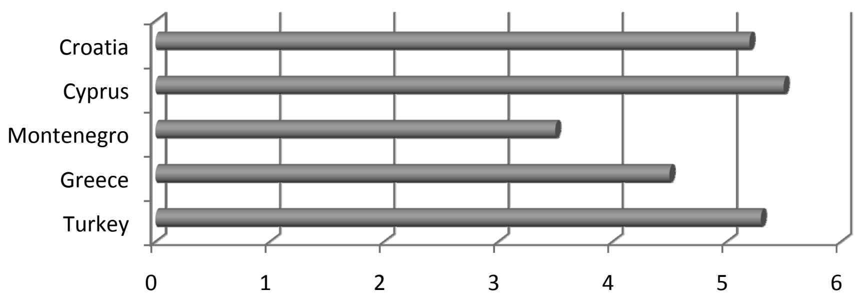
Source: Available at: www.doingbusiness.org, www.unctad.org, www.weforum.org, www.imd.ch, www.transperancy.org (Accessed on: May 28, 2016)[12]

Cyprus is considered to be the least corrupt and the country with the easiest working conditions. Among the selected countries, the most competitive are Cyprus and Turkey. As for the economic freedom, Cyprus is mostly a free country; Montenegro, Turkey and Croatia are moderately free countries, and Greece mostly is not a free country.

3.2.3 Infrastructure

The next important component of the macroeconomic environment is the total infrastructure quality assessment. The abundance and high quality of production resources constitute a good basis for production in both local companies and enterprises created through FDI. Multinational companies are also motivated by the differences in price of production resources between the state of origin and the state into which the company is expanding, as well as in countries in the region that could potentially compete for FDI (Babić et al., 2011: 11). The total infrastructure quality assessment (which includes traffic, telecommunication, and energetics) in select countries according to the World Economic Forum data is shown in the following figure.[13]

Figure 3 Total infrastructure quality, 2015



Notes: 1 = very undeveloped, 7 = prevalent and efficient according to international standards
Source: Made by the authors with reference to data in Global Competitiveness Report 2015-16, World Economic Forum, 2016

All of the selected countries except Montenegro ranked high on the total quality assessment, with Cyprus having the most developed infrastructure.

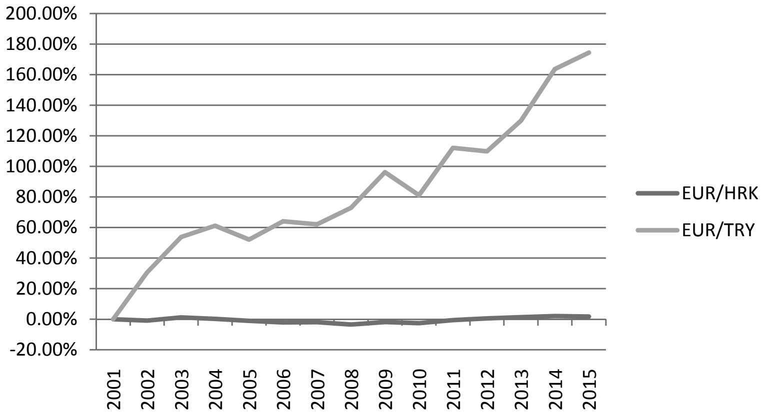
3.2.4 Currency exchange rate

The currency exchange rate movement is important to consider when devising monetary policy. A country can use the exchange rate to influence the investment environment in the national economy and affect its attractiveness to FDI. The currency exchange rate is a variable that can affect the country's ability to attract FDI negatively or positively Inappropriate macroeconomic policy can result in an overvalued exchange rate which discourages FDI (Kyereboah-Coleman, Agyire-Tettey, 2008). The influence of the exchange rate movement on FDI is twofold and depends on the purpose of produced goods (Bénassy-Quéré, 2000: 4). If the investor is present on the local market, FDI and commerce are *substitutes*. On the one hand, local currency appreciation will increase the inflow of FDI because the buying power of native inhabitants will increase. On the other hand, local currency depreciation increases the inflow of FDI due to reduced capital costs. This is especially evident when foreign companies recognise specific assets in target markets. If the purpose of FDI is production for re-export, then FDI and commerce are *complements*. Local currency appreciation will reduce the inflow of FDI due to the decline in competitiveness (higher labour and capital costs) and reduced wealth of foreign investors. Investors postpone their investment when the currency used in target markets gains value; they speculate, waiting for the currency to depreciate so that they might maximise their investment profits. Due to the described behaviour of investors, there is a significant period of time between the change of exchange rate and the flow of FDI.

Currency exchange rate volatility contributes to external uncertainty in the economy, which has a big influence on the inflow of FDI. The lack of information in volatile environments prevents the inflow of FDI and, unlike portfolio investment, offers few tools to the investors to protect against such risk (Bénassy-Quéré, 2000). But high currency exchange volatility does not always relate negatively to the inflow of FDI. If there is a small difference in buying power between the trading countries, a two-way FDI can be established, and the difference can become a tool with which the local producers can protect against risk brought on by an unstable currency rate environment.

As far as the currency exchange rate is concerned, all of the observed countries, except for Turkey and Croatia, use the euro as their official currency. The euro is used in Montenegro even though it is not officially a part of the European Union. Figure 4 shows the exchange rate of the Turkish lira and the Croatian kuna compared to the euro to assess the macroeconomic conditions for attraction of foreign investors.

Figure 4 Croatian kuna and Turkish lira to euro exchange rate from 2001 to 2015 (percent change compared to 2001, yearly median value of average exchange rate)



Source: Authors' calculations according to data from the Eurostat, Available at: http://ec.europa.eu/eurostat/web/tourism/data/database (Accessed on: May 31, 2016)[14]

The figure clearly shows that by 2015, the Turkish lira had dropped in value by a significant 174% when compared to the euro in 2001. In the same period, the exchange rate of the Croatian kuna has remained practically unchanged. Turkey, unlike Croatia, has no issues with the monetary scissors effect, which is one of the most relevant factors that has eliminated greenfield investments in Croatia, so it is only logical that foreign investors protect against monetary influence in the country.

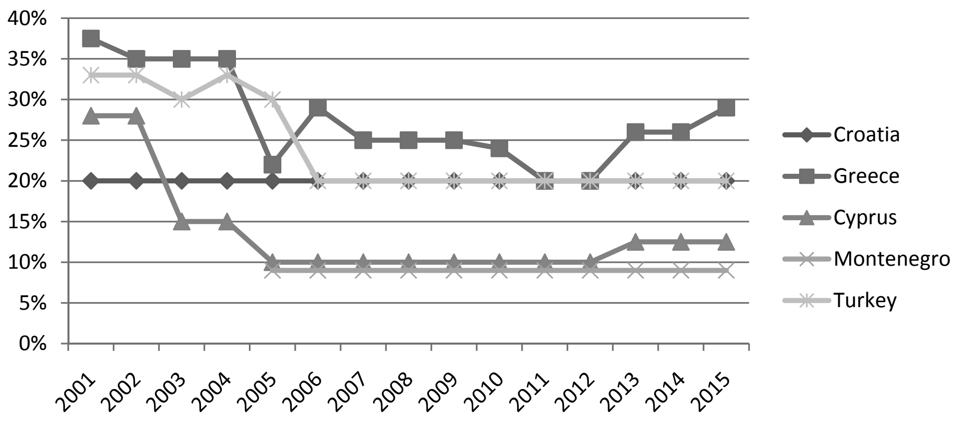
3.2.5 Tax systems and incentives

Unavoidably, foreign investment incentives that are in effect in several of the selected countries must be considered. The fiscal system plays an important role in attracting FDI, thus it needs to be transparent and easy to understand. Even though investors prefer low tax rates (and initial tax loans), the complexity of the fiscal system and the method of tax collection is considered important as well. Foreign investors usually observe the investment environment as a whole. Big tax reliefs, one of the most popular measures for attracting foreign investment, do not attract foreign investment by themselves (Babić, 2001: 13). A stable tax system with higher tax rates is preferred over systems with low tax rates in an unorganised institutional environment (Sekur, 2012: 172). It is believed that a decline in income tax rates on the global market is a consequence of competition between tax systems of different countries; i.e., a consequence of income tax as the relevant factor of FDI (Jovančević, Šević, 2006).

Today, there are over 10,000 economic development agencies in 200 countries worldwide, competing in attracting FDI. However, there are a limited number of productive, strategic and visionary investments. Incentives by investment can be divided into tax, financial, and other incentives. Tax incentives are linked to income tax and other tax reliefs, while financial incentives consist of subsidies, employment incentives and research and development incentives.

The following figure shows the income tax movement in selected countries from 2001 to 2015.

Figure 5 Income tax rates in selected countries from 2001 to 2015



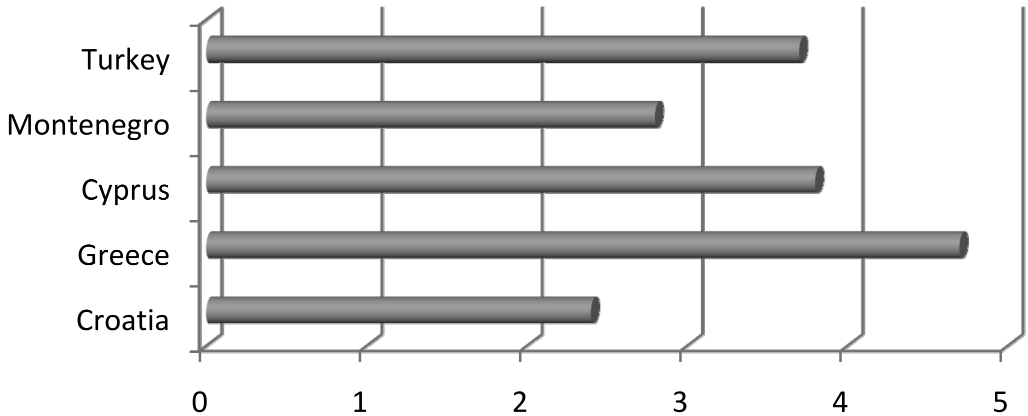
Source: KPMG's Corporate Tax Rate Survey – An international analysis of corporate tax rates from 1993 to 2006 (2006), online report, Available at: http://people.stern.nyu.edu/adamodar/pdfiles/articles/KPMGtaxratesurvey.pdf (Accessed on: April 21, 2014)[15]

KPMG Corporate tax rates table, Available at https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html (Accessed on: May 25, 2016)[16]

The income tax rates from 2001 to 2012, in selected countries, have been in decline or have remained constant throughout the observed period. After 2013, the income tax rates started rising in Greece and Cyprus. Data for Montenegro was available only from 2005 onward, but Montenegro shows a constant rate of 9% and also the lowest rate among the observed countries. The tax rate in Cyprus fell from 28% to 10% by 2012 and then slightly increased to 12.5% till 2015. This made Cyprus rank second in competitiveness with regards to income tax rates. In 2001, the highest income tax rate, 37.5%, was recorded in Greece, which was in decline and fell to 20% in 2012 and rose again in 2015 to 29%. Croatia, along with Turkey, ranks third. Croatia has had a constant rate throughout the observed period, while Turkey had a rate of 33% in 2001 which dropped to 20% by 2015. In 2015, the highest income tax rate, 29%, was recorded in Greece. By comparing the changes in income tax rates with the inflow of FDI per capita, it is evident that the lowest income tax rates correspond with the highest inflow of FDI per capita.

It is also useful to look at the total tax rate in individual countries. The influence of tax rates on business or investment is to be determined according to the World Economic Forum data.

Figure 6 Tax rates and their influence on business/investment (2015-2016, weighted mean)



** 1 = there are significant limitations to business or investment*

5 = there are no limitations to business or investment

Source: Made by the authors with reference to data from The Global Competitiveness Report 2015-2016, The World Economic Forum, 2016

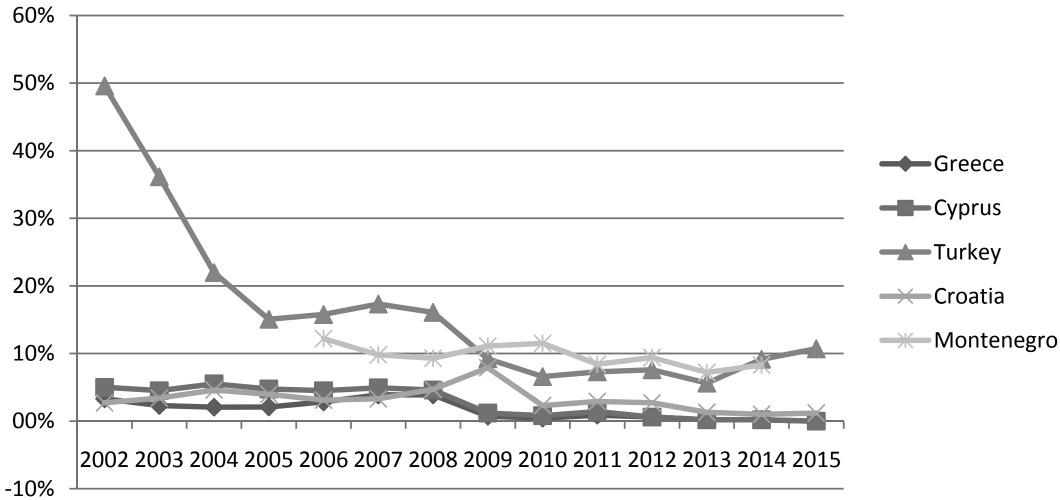
The figure makes apparent that Croatia is the least competitive country as far as total tax rates are concerned. Croatia is followed by Montenegro and Turkey, while Cyprus and Greece rise as the most competitive among the observed countries.

3.2.6 Interest rates

Interest rates determine capital costs. Even though the connection between FDI and interest rates is unclear, relatively higher interest rates in the host country will generally discourage corporate expansion on the local capital market and therefore lead to increased FDI (Piteli, 2010: 121). Higher interest rates ensure a higher return on equity which is expected to increase FDI if the corporation makes investments to profit from greater returns on equity. But this effect is more likely to happen with portfolio investment than foreign investment because transnational corporations usually borrow money on the domestic capital market and return on equity is not the reason for their investment.[17] If the interest rates in the host country are much higher than on the international market (which is an indicator of an unstable economy), FDI will be lower. Higher interest rates imply more expensive investment and the prolonging of FDI. This leads to the conclusion that the connection between FDI and interest rates is negative (Tsen, 2005: 98). In addition, higher interest rates point to a bad macroeconomic environment and increased market risk.

The conditions for determining interest rates differ from country to country, which renders comparing them less relevant. However, comparing changes in short term interest rates in the observed countries is significant, and is shown in the following figure.

Figure 7 Movement of short term interest rates from 2002-2015



Source: Eurostat website, Available at: http://ec.europa.eu/eurostat/web/tourism/data/database (Accessed on: May 31, 2016), European Commission Annual Macro-Economic Database, Available at http://ec.europa.eu/economy_finance/ameco/user/serie/Select Serie.cfm (Accessed on: May 31, 2016)[18]*, Central Bank of Montenegro, Available at http://www.cb-cg.org/eng/ (Accessed on: May 31, 2016)*[19]

The biggest decline in short term interest rates during the observed period is shown for Turkey, where interest rates fell from 49.6% in 2002 to 10.7% in 2015. However, in 2015, interest rates were still highest in Turkey, 10.7%, followed by Montenegro, 8.3% (data for 2014), while Greece, Cyprus and Croatia as members of the European Union have the lowest interest rate.

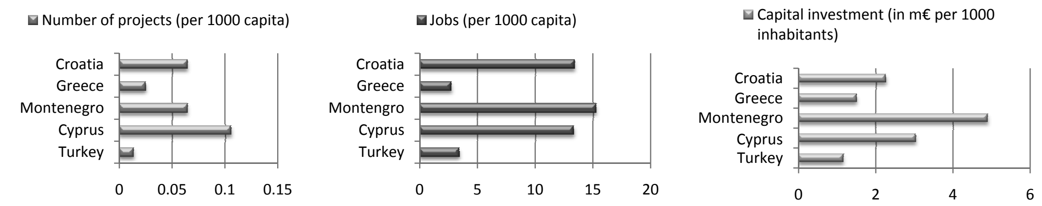
4. *Greenfield FDI into selected countries' tourism*

Tourists are becoming better informed and more demanding, and many developing countries as well as less developed countries prioritise attracting FDI and global brands into tourism to reap the benefits of increased income brought by global tourism. Entry of international hotel chains that own globally recognisable hotel brands is a significant contribution to the hotel offers of selected countries. The international hotel chains usually enter developed and attractive tourist markets and by doing so stimulate further development of the tourist offer. The hotel chains use the strength of the brands they own to guarantee service quality and thereby increase the quality of the destination they enter. In general, countries with developed tourism record a greater presence of global hotel chains.

Because FDI into greenfield projects are considered to be of the highest quality, which makes them most desirable, and due to the lack of official data on the inflow of FDI into selected countries per sector, this paper analyses the effects of greenfield investment according to fDi Intelligence data. This agency tracks data on announced greenfield projects globally. The data is based on information available at the time of the project's announcement and differs from the official flow of FDI based on balance of payments statistics. Deviations may appear as a consequence of investment realisation because the agency does not consider gradual investment realisation. In addition, it uses its own estimate of capital investment if such data is not available at the time of the project's announcement. Some of the announced investments must partially be financed by the destination country, which means that only a part of the invested capital can be considered the real flow of FDI.

Figure 8 shows the number of such projects and their effects on the overall economy in selected countries for the period from 2003 to 2012.

Figure 8 Total greenfield FDI in selected countries from 2003-2012, per 1000 inhabitants



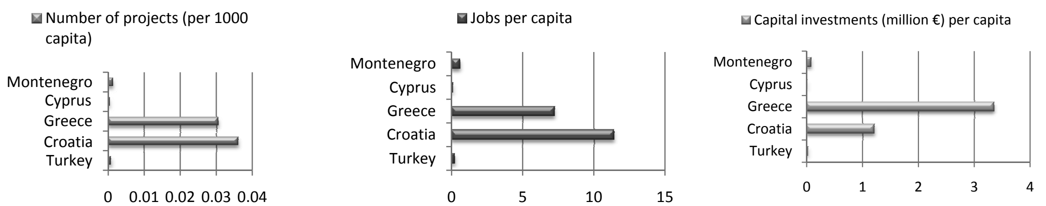
Source: Calculation made by the authors according to the fDi Intelligence data from The Financial Times Ltd: FDI into Croatia, Montenegro, Turkey, Greece and Cyprus, January 2003 to November 2012[20]

Absolute indicators show that during the observed period 979 projects were realized in Turkey, which created 243,642 jobs and realized 82,831.95m euros in capital investments. Greece attracted 275 greenfield projects which created 30,464 jobs and realized 16,592.59m euros in capital investments. In Cyprus, 82 projects were realized, resulting in 10,342 jobs and 2,347.03m euros in capital investments. Despite the lowest number of projects being realized in Montenegro, only 40, those projects created 9,491 jobs and realized 3,052.06m euros in capital investments. Compared to the observed countries, Croatia ranked second with 277 projects, creating 57,680 jobs and realizing 9,696.39m euros in capital investments.

According to relative indicators Cyprus is ranked first in the number of realized projects, followed by a tie between Croatia and Montenegro in the second place. Montenegro has the highest number of new jobs created, followed by Croatia and Cyprus. The most capital investments were realized in Montenegro, followed by Cyprus, then Croatia.

The amount and the effects of greenfield FDI into selected countries' tourism is shown in Figure 9.

Figure 9 Greenfield FDI into selected countries' tourism from 2003-2012, per 1000 inhabitants



Source: Calculations made by the authors according to fDi Intelligence data from The Financial Times Ltd: FDI into Tourism (Croatia, Montenegro, Turkey, Greece and Cyprus), January 2003 to November 2012, p. 12

Analyzing the absolute indicators leads to the conclusion that Greece was able to attract the highest greenfield FDI into tourism; 2.08 billion euros in total and 109.74m euros per project. The most new jobs were created in Turkey, 16,227, while Montenegro ranked first in jobs created per project, 425.

According to relative indicators, Croatia has the highest number of realized projects and new jobs. The biggest sum of capital investment was realized in Greece, and the second largest in Croatia.

The presence of global hotel brands in the selected countries is analyzed in the following table.

Table 4 Overview of currently present global hotel brands in the selected countries

	Group	Turkey	Greece	Cyprus	Croatia	Montenegro
1.	IHG	✓	✓	✓		
2.	Hilton Worldwide	✓	✓	✓	✓	✓
3.	Marriott International	✓	✓			
4.	Wyndham Hotel Group	✓				
5.	Accor	✓	✓	✓		
6.	Choice Hotels International	✓				
7.	Starwood Hotels and Resorts	✓	✓	✓	✓	
8.	Best Western	✓	✓		✓	✓
9.	Home Inns (+ Motel 168)					
10.	Carlson Rezidor Hotel Group	✓	✓		✓	
	TOTAL	9/10	7/10	4/10	4/10	2/10

Source: Authors' research

The entry of international hotel chains began in Turkey in 1955 with the opening of Hilton, followed by Inter Continental and Sheraton. The interest of hotel brands intensified in the second half of the 1980s. At the moment, 9 out of 10 biggest hotel chains have their brands in Turkey.[21] Two biggest investments into tourism in Turkey were realized in 2003 by Hilton Hotels and in 2006 by Accora. Hilton Hotels invested 206.8m euros and opened 1188 new jobs, while Accor invested 258.5m euros and opened 1485 new jobs.

In Greece, foreign hotels make up for 19% of the total hotel offer (judging by the number of rooms). This is considered to be a low penetration of hotel chains compared to the levels in the EU, where hotel chain penetration amounts to 35%, and USA, where it is 67%.[22] Their share in the total number of hotels is 4%.[23] Despite this, a significant presence of international hotel brands is detectable; currently 7 out of 10 biggest hotel chains have their brands in Greece. Two of the biggest investments into Greek tourism were realized in 2006, when Dolphin Capital Investors invested 1638m euros and opened 897 new jobs, and in 2007 when the Minoan Group invested 1638m euros and opened 2300 new jobs.

Montenegro and Cyprus have attracted the lowest number of greenfield investment into tourism projects. The recorded realisation rate for privatisation of hotel corporations in Montenegro is 95%, meaning that the privatisation was effectively realised to its fullest.[24] The international hotel chains present in Montenegro include Iberostar, Aman Resort, Best Western and Hilton.[25] Kempinski, W Hotels, Four Seasons, Radisson and Banyan Tree are at different stages of entering the Montenegrin market and are considering the possibilities of participating in Monenegro's tourist offer. The biggest investment into Montenegro's tourism was realised in 2011 by Quatari Diar, amounting to 264m euros and opening 1556 new jobs. At the moment, 2 out of 10 biggest hotel chains have their brands in Montenegro.

In developing its tourism, Cyprus' primary objective is to attract investment into marinas and golf terrains[26], but it is also characterized by a large presence of international hotel brands. Investment is being directed into specific fields of interest, such as health tourism, sports, nautical and agro tourism, conferences and theme parks as well. A new potential field for investment is the development of the so-called state-of-the-art casinos (Anonymous 2, 2013). The biggest investment into Cyprus' tourism was realized in 2011 by Limak International Hotels&Resorts, amounting to 80m euros and opening 472 new jobs. At the moment, 4 out of 10 biggest hotel chains have their brands in Cyprus.

Only few highly categorized brand hotels do business in Croatia, which is insufficient for a destination that bases the development of its economy on tourism. The biggest investment into Croatian tourism was realized in 2003 when the private investor Riccardo Mazzucchelli invested 225m euros in Hvar and opened 1326 new jobs. The two-part investments by the English investor Cubus Lux in 2010 worth 71.8m euros each that opened 1762 new jobs should also be pointed out. Cubus Lux operates in Croatian marinas and casinos. Hilton worldwide, which invested 32.6m euros into Dubrovnik in 2005 and created 192 new jobs, and Radisson Blu, which invested 34.5m euros into Dubrovnik and Split and created 297 new jobs in both cities, are significant investors into hotels. At the moment, 4 out of 10 biggest hotel chains have their brands in Croatia, 2 hotels of the Hilton Worldwide group and 4 hotels of the Best Western group do business in Croatia, compared to Turkey's 20 Hilton Worldwide and 17 Best Western hotels and Greece's 1 Hilton Worldwide and 19 Best Western hotels.

It is possible to conclude that Croatia, compared to the two most competitive tourist countries, Turkey and Greece, has the lowest entry of greenfield FDI into tourism, and a minor presence of international hotel brands.

5. Conclusion

As a part of the regional receptive destination in the Mediterranean basin tourism, Croatia is exposed to potentially serious competition on the world tourism market. This highlights the need to continually invest into tourism and follow the trends. Further development of tourism in developing and less developed countries, including Croatia, needs FDI into tourism because it is considered to be the most effective tool to harness capital, infrastructure, knowledge, and access to global marketing and distribution chains, which are critical for the development of tourism. Dilemmas of whether to allow the entry of foreign capital into certain sectors of the Croatian economy, especially tourism as considered in this paper, are unfounded due to the chronic lack of domestic investment potential, especially if abstention and caution towards investment on the global level are taken into consideration. This is why efforts to engage foreign capital are necessary.

The analysis and comparison of the Croatian macroeconomic environment to Turkey, Greece, Montenegro and Cyprus, countries which compete with Croatia due to their similar tourism offer, the fact that they compete in attracting tourists from the same emissive markets, and the WTTC evaluation which considers the aforementioned countries the biggest competitors to Croatian tourism, have shown that the macroeconomic environment plays a key role in attracting foreign capital. In other words, a favorable macroeconomic environment implies a good credit rating, quality infrastructure, realistic exchange rate, competitive tax incentives and favorable interest rates. The growth potential of the domestic market is the primary motive of greenfield investors, and legislation and business are other key motives for initiating investment activity.

The comparative analysis of greenfield FDI into tourism of selected countries has shown that Greece has attracted the most investment. In Turkey, greenfield investments created the most jobs. In both countries a high presence of international hotel brands is visible, unlike in Croatia. The analysis has shown that FDI into tourism ensures an enviable presence of international hotel brands which is of special importance to the competitiveness of Croatian tourism.

A favorable macroeconomic environment, along with adequate measures of attracting FDI, is one of the conditions for FDI to have a significant economic impact. It is the preparedness of the macroeconomic policy that is vitally important to predetermining what foreign capital should be attracted into the country, which standards to follow, and how it will affect the overall economy. Political stability, encouraging macroeconomic conditions of doing business, removing administrative and legislative barriers, clearing the image of a "corruption-ridden destination" and educating the tourism personnel on all levels is of utmost importance for FDI in Croatian tourism.

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MAKROEKONOMSKO OKRUŽENJE I GREENFIELD IZRAVNA INOZEMNA ULAGANJA HOTELSKIH BRENDOVA

Sažetak

Za daljnji razvoj turističkoga sektora od posebne je važnosti snažnije privlačenje izravnih inozemnih ulaganja. Strateški usmjereno privlačenje izravnih inozemnih ulaganja u turistički sektor ima dodatni značaj zbog multiplikativnih učinaka u odnosu na ostale sektore gospodarstva. U tom je kontekstu potrebno istaknuti ulagačko angažiranje i prisutnost globalno brendiranih luksuznih hotela.

Svrha je rada komparativnom analizom odabranih zemalja, kao metodološkom bazom ovoga rada, ocijeniti makroekonomsko okruženje, razinu i učinke greenfield izravnih inozemnih ulaganja u turizam te, posljedično, prisutnost globalnih hotelskih brendova. Rezultati istraživanja ukazuju na to da povoljno makroekonomsko okruženje igra važnu ulogu u privlačenju inozemnoga kapitala. Zemlje koje imaju povoljnije makroekonomsko okruženje, privlače više greenfield izravnih inozemnih ulaganja te osiguravaju veću prisutnost globalnih hotelskih brendova, a time i veću konkurentnost. Za izravna inozemna ulaganja u turizam od posebnoga je značaja politička stabilnost, poticajni makroekonomski uvjeti poslovanja, otklanjanje administrativnih i zakonodavnih prepreka, otklanjanje imidža zemlje kao „korumpirane destinacije“ i educiranje turističkoga kadra svih razina.

Ključne riječi: greenfield izravna inozemna ulaganja, makroekonomsko okruženje, turizam, globalni hotelski brendovi