Research note

China's outward foreign direct investment in tourism

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H I G H L I G H T S

- This study examines country choice of China's outward FDI (OFDI) in tourism.
- China's outbound tourism influences its OFDI in tourism.
- Host country tourism economy influences China's OFDI in tourism.
- Host country investment environment influences China's OFDI in tourism.
- Trade and innovation are not key determinants to China's OFDI in tourism.

A R T I C L E   I N F O

A B S T R A C T

This study investigates the factors that influence China's outward foreign direct investment (OFDI) in tourism. Employing a panel dataset involving 21 host countries for 10 years (2004–2013), negative binomial regression modelling showed that Chinese outbound investment in tourism is, at least in part, determined by volume of tourism flows to host country, the scale of tourism in that country and the openness to inbound investment. Other variables such as trade relationships between donor and recipient country and measures of innovation were seemingly of little importance. The study indicates a divergence of Chinese firms' OFDI in tourism from its general OFDI country choice pattern and confirms that sector-specific factors may be playing a more significant part in China's OFDI in tourism.

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1. Introduction

Due to its economic growth and significant scale of international trade, China has become one of the important countries exporting foreign direct investment (FDI). In the past over ten years, outward FDI (OFDI) from China increased dramatically from $2.7 billion in 2002 to $102.9 billion in 2014, rising by almost 38 times (National Bureau of Statistics of China, 2015). China's OFDI has attracted due attention from governments and enterprise in the world. Since 2013, the Chinese government has been vigorously promoting its "One-Belt-One-Road" strategy, hoping to export China's enormous manufacturing capacity and encourage Chinese enterprises to internationalize or "go out" to expand their businesses in other countries. The "one-Belt-One-Road" initiative seemed to have

ushered a new round of boom in China's OFDI in sectors such as energy, mining, manufacturing, finance, agriculture, and commerce. Tourism has also been a significant sector that attracted significant amount of Chinese OFDI.

China's OFDI in tourism seems to have been stimulated by the rapid development of Chinese outbound tourism. In 2014, outbound trips from China reached 107 million, nearly 13 times that in 1998. In 2014, outbound tourist destinations (excluding Hong Kong, Macao and Taiwan) that received more than one million visitors from China included South Korea, Thailand, Japan, the United States, Vietnam, Singapore (China Tourism Academy, 2015), which were the main destinations of China's OFDI in tourism. According to the Ministry of Commerce (2014), in line with the growth of Chinese outbound tourism, the number of China's OFDI enterprises in tourism increased from 14 in 2004 to 578 in 2014, a growth of over 40 times in about ten years. In 2014, China's OFDI reached 81 countries or regions in the world.

Many studies have explored the determinants and driving

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factors of Chinese OFDI (Buckley et al., 2007; Deng, 2013; Kolstad & Wiig, 2012; Ramasamy, Yeung, & Laforet, 2012; Wang, Hong, Kafouros, & Boateng, 2012; Zhang & Daly, 2011). Although there is little consensus among researchers on what determines Chinese OFDI, the literature indicates that firm, industry, and intuitional factors should be considered in explaining OFDI of Chinese firms (Deng, 2013; Wang et al., 2012). In addition, both host country and home country factors lend their explanation powers on Chinese OFDI (Cui & Jiang, 2012; Kolstad & Wiig, 2012; Ramasamy et al., 2012). Compared to manufacturing and energy industries, tourism is an experience-based industry and has distinctive features of industry operation. Therefore, the general pattern of Chinese OFDI may not fully apply to Chinese OFDI in tourism. This research note seeks to investigate the factors that explain the location choice of China's OFDI in tourism.

2. Literature review

Dunning's eclectic theory of firm internationalization identifies three primary motivations for FDI: foreign-marketing seeking; efficiency seeking; and resource seeking or strategic asset seeking (Dunning, 1993, 2002). However, as this general theory of FDI is mainly based on the experiences of investment from industrialized countries, researchers have questioned its applicability in explaining FDI from developing economies like China (Buckley et al., 2007; Zhang & Daly, 2011). Specific to the China context, Buckley et al. (2007) argued that the availability of capital at below-market rates due to capital market imperfections may motivate Chinese enterprises to invest outbound; in addition, Chinese multinational enterprises (MNEs) may have the ownership advantages comparing to local firms and industrialized country MNEs, and they may have the favorable institutional environment such as home country government support. Running empirical test on official Chinese OFDI data from 1984 to 2001, Buckley et al. found that from 1984 to 1991, Chinese OFDI was associated with high levels of political risk, cultural proximity, and market size in host countries; however, from 1992 to 2001, host-country natural resource endowment seemed to have strong explanation power.

Although FDI has played an important role in the development of tourism industry, outbound FDI in tourism appears to be a neglected area (Dwyer & Forsyth, 1994; Endo, 2006; Tai, 2014). Studies on the location choice of OFDI in tourism are even rare (Kundu & Contractor, 1999). Existing research on OFDI in tourism mainly focus on the entry mode (e.g., Rodríguez, 2002; Chen & Dimou, 2005; Martorell, Mulet, & Otero, 2013). However, country choice can be logically regarded as the choice decision making before entry mode selection. This makes the country choice of OFDI in tourism of great significance. Kundu and Contractor (1999) took international hotel industry as an example to verify the determinants of location choice of transnational corporations in service industry. They found that hospitality industry factors such as the scales of FDI and tourism receipts were important variables to explain country location choice of international hotel chains, while other country specific factors like GDP played a lesser explanation power. Rodríguez (2002) studied Spanish hotel firms' international expansion and discovered that Spanish hotels' foreign expansion were mainly toward Latin America, especially in the Caribbean region due to cultural proximity. Yang, Luo, and Law (2014) summarized the theoretical, empirical and operational models of hotel location research and argued that agglomeration model (agglomeration effect) could explain the size of the hotel industry in different cities and different areas, which could also be used to explain the reason for the country choice of hotel firms' overseas

expansion. Nevertheless, the literature indicates that OFDI in tourism may carry unique characteristics in comparison with OFDI in manufacturing industries. In the context of China as an emerging OFDI source country and the world's largest outbound tourist market, the current paper examines the determinants of China's OFDI in tourism.

3. Data and methodology

3.1. Model identification

Three motivations could be identified with Chinese enterprises for engaging in OFDI in tourism: profit-making, assets seeking, and natural resources seeking (Cui & Jiang, 2009; Deng, 2007, 2009; Kolstad & Wiig, 2012). Driven by these motivations, the following factors are considered as determinants of Chinese enterprises OFDI country choice making:

3.1.1. Investment environment
Investment environment refers to the host country's legal environment, institutional environment, economic policy, and hospitality to foreign investment. A good investment environment in the host country would attract foreign investment to the country. In our study, a proxy variable of investment environment was taken as the Chinese investment stock in the host country, denoted as CIS (Chinese Investment Stock).

3.1.2. Outbound tourism scale to host country
Compared with domestic tourism business in China, outbound tourism operation has a higher profit margin to Chinese enterprises. A large number of tourist arrivals to the host country from China would mean a good base for operating outbound tourism business in that country. The current scale of Chinese outbound tourism to the host country would likely influence the country location choice of Chinese transnational tourism investment. Therefore, the number of tourist arrivals from China to the host country was selected as the proxy variable of the outbound tourism scale, denoted as OUT (Outbound Tourism to the Host Country).

3.1.3. Tourism economy scale
Market-seeking is one of the main reasons of outward tourism investment. As the tourism economy scale of the host country would represent the market size of the country's tourism, it will possibly influence the intention of foreign companies to invest into the tourism industry. When there is a large market scale in the host country and the level of tourism consumption is high, the likelihood of gaining profits through investing in the host country's tourism industry may be guaranteed. Therefore, the host country's tourism economy scale was chosen to be another factor influencing Chinese enterprises' OFDI in tourism. We use the total tourism expenditure in the host country as the proxy variable for the tourism economy scale, denoted as DITE (Domestic and Inbound Tourism Expenditure).

3.1.4. Trade level
There is a complementary and substitutional relationship between trade and investment. Markusen (1983) and Svensson (1984) both argued that the relationship between merchandise trade and factor mobility is decided by their nature of "cooperation" and "non-cooperation". If they are cooperative, the relationship would be complementary. Otherwise it would be substitutional. Nowadays, quite a number of the outward tourism investment enterprises in China are not typical tourism enterprises. They have main

businesses in the energy, construction, real estate sectors while taking tourism as auxiliary business. This means that tourism is "cooperative" to their main business. As a result, the bilateral trade and foreign tourism investment are in a complementary relationship and bilateral trade growth would promote transnational tourism investment. Therefore, we choose the bilateral trade volume as the proxy variable for trade level, denoted as TRD (Trade).

3.1.5. Innovation capability

Li's (2010) analysis showed that Chinese transnational tourism enterprises are mostly running under deficit. In this context, the main motivation for Chinese enterprises to further engage in transnational tourism operation is "global learning". As a developing country, China may take its late-mover advantage to quickly acquire the advanced experience and innovation capability from developed countries. Therefore, Chinese outward tourism investment may focus on countries and regions with strong innovation capabilities. As a proxy variable, we take host country's quantity of patent applications per 10 thousands of residents and non-residents to measure its innovation capability (Buckley et al., 2007), denoted as PAT (Patent).

Considering the above-mentioned explanation variables, we construct the following model:

$$OTI = \alpha + \beta_1 CIS + \beta_2 OUT + \beta_3 DITE + \beta_4 TRD + \beta_5 PAT + \varepsilon_{it}$$

3.2. Data collection and analysis

The dependent variable in the model is the quantity of China's outward tourism investment enterprises. We used the Chinese Outward Investment Enterprise Catalog (COIEC) of China's Ministry of Commerce to develop a Chinese outward tourism investment enterprises catalog database. The COIEC contains such information as name of investors, their home provincial affiliation or central government agency affiliation, name of the subsidiary established abroad, time of the subsidiary establishment, country where the subsidiary is established, and business scope of the subsidiary.

After data cleansing, we constructed a database of Chinese (mainland) outward tourism direct investment enterprises. Although data on relevant sectors such as conventions and exhibitions, leisure and recreation (e.g., cruises and yachts), and institutions such as overseas tourism offices can be gathered, we focused on such direct tourism sectors as hotels, travel agencies and catering businesses. In addition, we retrieved our data on CIS from China's Foreign Direct Investment Communique, data of OUT from the United Nations World Tourism Organization (UNWTO) websites, the DITE data from the World Travel & Tourism Council (WTTC) websites, the TRD data from China's National Bureau of Statistics, and the PAT data from the official website of the World Bank. Table 1 lists the key variables in the study.

Eventually, we used a panel dataset comprising 21 host countries (regions) in a 10-year period (2004–2013) in our analysis. By September 2014, there were 23 countries (regions) that hosted at least 5 Chinese tourism OFDI enterprises. These include, in the order of the number of hosted Chinese tourism OFDI enterprises, Hong Kong, USA, Australia, South Korea, Canada, Russia, Cambodia, Laos, France, Japan, the United Arab Emirates, Germany, Singapore, UK, North Korea, Malaysia, Thailand, Vietnam, Macao, Taiwan, Angola, Holland, and New Zealand. We excluded Taiwan and North Korea in our analysis due to the data unavailability in key variables. For some countries (e.g., Australia, Angola), the early years (2004–2007) did not record any Chinese outbound FDI in tourism. Therefore, after eliminating those years' observations for such countries, the effective number of observations in our panel dataset was 160. Among the explanatory variables, CIS, DITE, and TRD are processed by eliminating inflation using the corresponding CPI (taking 2004 as the base period). Furthermore, in order to rectify heteroscedasticity, the log linear values of the variables were used in the regression analysis.

4. Results

4.1. Descriptive statistics and correlation

Table 2 lists the descriptive statistics of variables. Table 3 shows the Pearson correlation coefficient matrix among the variables. As expected, there were significant positive correlations between the dependent variable (OTI) and the explanatory variables; the highest correlation was between OTI and CIS (0.655), followed by OUT (0.426), TRD (0.419), DITE (0.223) and PAT (0.190).

4.2. Model test results

Because our dependent variable takes non-negative integer count value, regression model with count data was considered in our analysis. These models include Poisson model, negative binomial model and zero-inflated model. As the variance of the dependent variable (20.04) is much larger than its mean (2.19), we adopted negative binomial model in the regression. LR test showed the range of alpha at 95% confidence interval is (0.019, 0.548), thereby rejecting the "alpha = 0" hypothesis (corresponding to Poisson model) at the 0.05 significance level. This shows that choosing negative binomial model is more reasonable. Since the dependent variable contains many "0" values, the comparison of zero-inflated negative binomial model with standard negative

Table 2
Statistical Description of Variables.

Variable	Number	Mean	SD	Min	Max
OTI	160	2.194	4.477	0	33
CIS	160	11.54	1.836	7.682	17.19
OUT	160	13.55	1.183	11.34	16.65
DITE	160	3.864	1.271	1.301	6.649
TRD	160	15.25	1.364	12.01	17.66
PAT	160	9.796	2.016	3.091	13.26

Table 1
Variables in the model.

Variable	Explanation	Expected sign
OTI	Number of Outward tourism investment enterprises in host country	n/a
CIS	Chinese investment stock in host country	+
OUT	Chinese outbound tourist arrivals to host country	+
DITE	Domestic and inbound tourism expenditure in host country (dollars)	+
TRD	Trade volume between China and the host country	+
PAT	Quantity of patent applications per 10,000 residents and non-residents	+

Table 3
Correlation matrix.

	OTI	CIS	OUT	DITE	TRD	PAT
OTI	1					
CIS	0.655***	1				
OUT	0.426***	0.610***	1			
DITE	0.223***	0.121	−0.192**	1		
TRD	0.419***	0.497***	0.232***	0.610***	1	
PAT	0.190**	0.087	−0.228***	0.685***	0.810***	1

Note: ***$p < 0.01$; **$p < 0.05$; *$p < 0.10$.

binomial model was conducted. Zero-inflated negative binomial regression results showed that the Vuong statistic (Vuong, 1989) was −3.30, far less than the critical value of −1.96; therefore, the zero-inflated negative binomial model was refused, and the standard negative binomial model was selected as the regression model.

In Table 4, models 1–7 show the negative binomial regression results. Model 1 shows the combined effects of CIS, OUT, DITE, TRD, and PAT on China's outbound FDI in tourism. The regression results show that CIS, OUT, DITE, and PAT had significant effects on the tourism outward FDI flows; however, trade level was not a significant predictor. Unexpectedly, the proxy variable of innovation capability as patent applications of the host country (region) had a negative effect on Chinese outward tourism investment. The more patent applications in the host countries (regions), the fewer Chinese tourism enterprises would invest in. This result is contradictory to common sense understanding. Model 2 shows the regression results after excluding trade level as a predictor; the regression coefficient of the proxy variable of innovation capability was still negative, as such this variable was removed in subsequent analyses. The result, however, suggests that innovation capability may not be a factor that directly affects the country choice of China's Outward Tourism Investment (OTI).

After excluding innovation capability, model 3 shows that the trade level was still not significant. Model 4 shows the results of the regression that only took account of three significant variables in Model 3. The results of Model 4 indicate that investment environment, outbound tourism scale to host country, and the tourism economy scale of the host country are key factors affecting the country choice of China's OFDI in tourism. The regression coefficients of investment environment, outbound tourism scale and tourism economy scale were 0.471, 0.786 and 1.086 respectively. By comparing these coefficients, we can see that China's OFDI in tourism is mostly market-seeking. Both outbound tourism scale (OUT) and tourism economy scale (DITE) are indicators of the tourism market in the host country, which Chinese outward tourism investors can tap on. Although some studies show that Chinese enterprises' outward investment, especially in developed countries, aimed at seeking strategic assets (technology, brand, marketing network, innovation) (Deng, 2009; Jiang & Jiang, 2012), Chinese OFDI in tourism appears to be mostly market-seeking, and the motive of technology (innovation) seeking is not obvious. Secondly, the host countries (regions) domestic and inbound tourism expenditure has a greater impact on the country choice of Chinese OTI compared to the scale of Chinese outbound tourism.

Models 5–7 are the regression results considering the first-order lagged variables of investment environment, outbound travel scale and tourism economy scale. The results show that the investment environment, outbound tourism scale and tourism economy scale in the previous period had no significant effects on the current Chinese outward tourism investment.

4.3. Robustness test

A robustness test was conducted to make a group of regressions to developed and developing countries separately. Models 8 (developed country group) and 9 (developing country group) in Table 5 are the regression results of fixed effects. In model 8, investment environment and tourism economy scale were both positive predictors at the 0.01 significance level, which indicates that for developed countries, investment environment and tourism economy scale are the main factors affecting Chinese OFDI in tourism. Model 9 shows that for developing host countries, only investment environment was a significant predictor at the 0.10 significance level. The regression results of models 8 and 9 show that the investment environment has always been a key factor in the country choice of Chinese OFDI in tourism.

Table 4
Estimation results of negative binomial regression.

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CIS	0.508***	0.541***	0.470***	0.471***	0.396**	0.452***	0.453***
	(3.14)	(3.72)	(3.61)	(3.90)	(1.99)	(3.46)	(3.50)
OUT	0.593*	0.641***	0.785***	0.786***	0.792***	0.91	0.816***
	(1.91)	(2.19)	(2.94)	(3.09)	(2.86)	(1.64)	(3.01)
DITE	0.968**	1.063**	1.084**	1.086***	0.961**	0.962**	1.359*
	(2.39)	(2.97)	(2.56)	(2.79)	(2.32)	(2.31)	(1.69)
TRD	0.238		0.004				
	(0.48)		(0.01)				
PAT	−0.623*	−0.575*					
	(−1.82)	(−1.78)					
L.CIS					0.062		
					(0.35)		
L.OUT						−0.111	
						(−0.20)	
L.DITE							−0.425
							(−0.56)
Constant	−13.51**	−11.69***	−10.80	−10.75*	−10.37	−10.39	−7.92
	(−2.56)	(−3.26)	(−1.43)	(−1.83)	(−1.30)	(−1.23)	(−0.07)
Log Likelihood	−166.114	−166.228	−188.703	−188.703	−181.662	−181.686	−181.567
Wald test	168.726	169.082	217.908	217.912	186.097	184.838	185.121
p-value	0.000	0.000	0.000	0.000	0.000	0.000	0.000
N	160	160	189	189	171	170	171

Note: t statistics in parentheses; ***$p<0.01$; **$p<0.05$; *$p<0.1$.

Table 5
Negative binomial regression results of panel data for robustness test.

Model	(8)	(9)	(10)	(11)
CIS	0.585***	0.875*	0.456***	0.459***
	(3.77)	(1.84)	(3.59)	(3.82)
OUT	0.455	0.78	0.820***	0.792***
	(1.49)	(0.98)	(3.02)	(3.13)
DITE	1.138***	0.05	0.999	1.094***
	(2.88)	(0.03)	(1.64)	(2.82)
Constant	−16.504***	−2.872	−10.800	−16.680***
	(−5.98)	(−0.01)	(−1.48)	(−1.80)
Log Likelihood	−147.364	−37.368	−170.672	−185.260
Wald test	157.407	37.613	160.605	214.899
p-value	0.000	0.000	0.000	0.000
N	130	59	179	179

Models 10 and 11 are based on the method of excluding the high-end and low-end cases regarding the dependent variable and then studying the stability of the regression coefficients by changing samples. Using this method, we removed Hong Kong as the host region attracting the largest number of Chinese OFDI in tourism in Model 10 and New Zealand as the country attracting the least number of Chinese OFDI in tourism in Model 11. The regression results show that the coefficients of the three explanatory variables were significant except that of DITE in model 10, which had a t-value of 1.64, very close to the value demonstrating a significant effect. The robustness test indicates that the regression findings are mostly robust.

5. Conclusions and discussion

This study utilized a panel dataset involving 21 host countries (regions) in 10 years (2004−2013) to examine the determinants of China's outbound FDI in tourism. Based on the relevant literature, investment environment, Chinese outbound tourism scale to the host country, host country's tourism economy scale, trade level between China and the host country and host country innovation capability were selected as explanatory factors influencing Chinese OFDI in tourism. Results show that the trade level and host country innovation capability were not meaningful predictors of Chinese OFDI in tourism. Instead, investment environment, China's outbound tourism scale to the host country, and host country's tourism economy scale were significantly associated with Chinese OFDI in tourism. The findings suggest that unlike the general trend of Chinese firms' international expansion to acquire strategic assets (Deng, 2009; Jiang & Jiang, 2012), Chinese firms investing in tourism abroad are mainly tourism market seeking in their country choice.

Our study shows that tourism as an experience-making industry bears unique nature in attracting foreign direct investment. Chinese OFDI in tourism may not be simply explained by the general trend of Chinese OFDI or that in the manufacturing sectors. Our findings confirm that other than the existing Chinese investment stock in the host country, the Chinese outbound tourism volume to the host country, and the host country tourism economy scale are significant factors that influence Chinese firms' country choice for OFDI in tourism. This finding echoes Kundu and Contractor (1999)'s argument that service multinationals' country location choice may be more influenced by sector-specific factors than country specific factors. However, as there are very few studies on outward FDI in tourism (Dwyer & Forsyth, 1994; Endo, 2006) other than entry model studies of international hotels (Chen & Dimou, 2005; Quer, Claver, & Andreu, 2007; Rodríguez, 2002), this finding cannot be corroborated. Nevertheless, the current study represents one of the few research attempts to examine the determinants of tourism ODFI beyond the focus of international hotel firms in the tourism literature.

Our study may be limited in its selection of explanatory variables and the adoption of proxy measurements. More generally, other considerations that could play a role in China's OFDI in tourism are the ability to generate more profits for Chinese business. For example, in the case of Australia, Chinese airlines could be the carriers, whilst Chinese owned hotels provide accommodation, and Chinese owned tour operators provide tour services to gain profits from the Chinese visitor market. The use of Chinese foreign investment stock as a proxy for investment environment is at best an indirect measure given the aggregated nature of accounts and reporting, and that may undermine the role of profit-making and hence under-estimate the levels of return from such investment.

On the practical side, this study has several policy implications for China's outbound tourism investment. First, as investment environment appears to be an influential factor for Chinese OFDI in tourism, Chinese government can establish an information sharing platform to publish investment environment indictors of main OFDI countries to direct tourism foreign investment; Second, as Chinese firms are mainly market seeking in their foreign investment in tourism, outbound tourism volume to a specific country can be regarded as effective indicator for guiding further tourism investment into the country. Third, although the strategic assets seeking motivation is not obvious in the current practices of Chinese OFDI in tourism, in the long term, in order to sustain competitive advantage, Chinese firms should consider investing in strategic tourism assets such as technology, marketing network, and branding.

Acknowledgements

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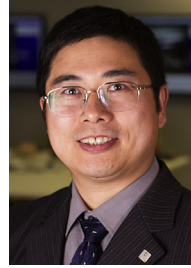
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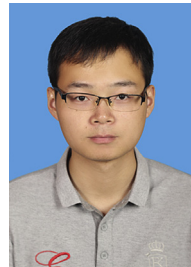
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