



Research note

China's outward foreign direct investment in tourism

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HIGHLIGHTS

- 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.

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ABSTRACT

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, Kafourous, & Boateng, 2012; Zhang & Daly, 2011). Although there is little consensus among researchers on what determines Chinese OFDI, the literature indicates that firm, industry, and intitutional 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

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