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RESEARCH NOTE

Impact of outbound tourism on outward FDI

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Introduction

The foreign direct investment (FDI) benefits host countries in multiple ways (Ito, Yashiro, Xu, Chen, & Wakasugi, 2012; Lin, Liu, & Zhang, 2009). Traditionally, a firm's decision to internationalize is primarily motivated by four factors that are resource seeking, market seeking, strategic asset seeking, or efficiency-seeking (Dunning & Lundan, 2008). Within such works of literature, different factors have considered as determinants for attracting FDI (Luo & Zhang, 2016; Luo, Zhang, & Bu, 2019), where factors like traveling to a host country have the potential to mitigate equivocalities and uncertainties associated with an investment in that the host country has not examined before.

China's outward FDI (OFDI) flow holds an overall third position in the world while maintains the first position among developing countries. Since 2013, under the Belt and Road initiative prospects, Chinese OFDI has surged to a new level, mainly in the energy, metals, and transportation sectors, where an average increase of 22% in the overall OFDI from 2013 to 2016 (UNCTAD, 2017). While Chinese outbound tourism has followed a similar path, it has reached 210 million tourists in 2016, 126% higher than 2010 figures. A similar increase is also visible in the 'spending' of Chinese travelers, which has risen by 12% in 2016, reaching 261 billion (UN-WTO, 2019). China's global outbound tourism continues to be the highest globally, following double-digit growth in 'spending'. In terms of international arrival and receipt ranking of 2016, China has ranked fourth after France, the United States, and Germany (UN-WTO, 2019).

Literature suggests that inbound tourism as one of the motivation factors for attracting inward FDI in Japan has presented by Tomohara (2016), where he has found that inbound tourism has a spillover effect on the overall inward FDI in Japan, rather than just on tourism-related inward FDI. While Bannò and Redondi (2014) also have found that new airline routes increase inward FDI in Italy because it reduces transport costs and increases knowledge sharing. Fageda (2017) has found that reduction in travel time through nonstop flights' availability increases inward FDI due to enhanced information transmission. While Keum (2011), using

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the data from Korea and its 21 trade partners (countries), examined the relationship between tourism and trade by employing the Granger causality and has found that the causal direction generally flows from tourism towards trade.

The acculturation theory (Segall, 1979) explains the relationship between Chinese outbound tourism and OFDI in the destination country. The acculturation perspective proposes that during the tourist visit to a host country, cultural adaptation occurs through contact and communication with culturally dissimilar groups (Gibson, 2001). Thus, this process may reduce any stereotypes regarding the host country's business environment, lessening the uncertainties related to investment in the host country (Rasmi, Ng, Lee, & Soutar, 2014) ultimately, increase OFDI in that country. Based on this, we expect that outbound tourism in a host country is likely to be positively associated with OFDI in the host country because it reduces perceived equivocality and uncertainty of investing in that country. Though there has been an increasing emphasis on Chinese OFDI due to its growing size and volume, especially after the Belt and Road Initiative (Buckley et al., 2007; He & Lyles, 2008; Mourao, 2018; Zhang & Daly, 2011), however till date, no work of literature has considered the Chinese outbound tourism as one of the determinants of Chinese OFDI. Therefore, we extend this line of inquiry, where we investigate that Chinese outbound tourism as a potential determinant of its OFDI in a host country. For this reason, the findings of this study are of particular interest to policy-makers of developed and developing countries to attract Chinese FDI.

Methodology

We have developed our model based on prior studies (Buckley et al., 2007; Kolstad & Wiig, 2012). Eq. (1) includes the rule of law (RL) as a proxy for the institutional environment, while Eq. (2) includes political stability (PS) as a proxy for transaction costs while keeping other variables the same. Table 1 provides data elaborations and sources; Table 2 provides the correlation matrix, and Table 3 represents the list of sample countries (N = 77), while the period of the study is from 2005 to 2017. The models are as follows:

$$logOFDI_{it} = \alpha + \beta_1 logOT_{it} + \beta_2 RL_{it} + \beta_3 OME_{it} + \beta_4 FE_{it} + \gamma Controls_{it} + \varepsilon_{it} \quad (1)$$

$$logOFDI_{it} = \alpha + \beta_1 logOT_{it} + \beta_2 PS_{it} + \beta_3 OME_{it} + \beta_4 FE_{it} + \gamma Controls_{it} + \varepsilon_{it} \quad (2)$$

We have examined the relationship between outbound tourism (OT) and outward FDI (OFDI) in multiple ways. Firstly, we employed Panel Ordinary Least Square (Hsiao, 2014; Klevmarken, 1989; Liargovas & Skandalis, 2012). Secondly, following Galesic et al. (2018), Yang and Pan (2020), and Pariboni and Pariboni and Tridico (2019), we have carried out the Granger causality test (Abrigo & Love, 2016) to provide evidence for causality. We have also conducted robustness analyses and multiple diagnostic tests, including two-stage least square regression (2SLS), to examine any endogeneity bias within the model (Baum, Schaffer, & Stillman, 2015), where the overall relationship remained consistent and robust.

Table 1
Data elaboration and sources.

Variable	Main/control	Proxy	Description	Expected sign	Source
Outward Foreign Direct Investment (OFDI)	–	China Outward FDI	Annual Chinese Outward Foreign Direct Investment in USD (in log form)	N/A	The American Enterprise Institute and The Heritage Foundation; China State Administration for Foreign Exchange
Outbound Tourism (OT)	Main	Acculturation	Annual number of Chinese tourists visits in destination country (in log form)	+	United Nations – World Tourism Organization
Rule of Law (RL)	Main	Institutional Environment, Wages, Infrastructure	Abide by rules of the country like contracts, police, and courts (Scale ± 2.5, higher is better)	+	Worldwide Governance indicator of the World Bank, from the Quality of Governance Institute 2017
Political Stability (PS)	Main	Transaction Cost	Political Stability and Absence of Violence/Terrorism (Scale ± 2.5, higher is better)	+	Worldwide Governance indicator of the World Bank, from the Quality of Governance Institute 2017
Ores & Metals Exports (OME)	Main	Natural Resource	Ores & Metals Exports as a percentage of Merchandise Export	+	World Bank
Fuel Export (FE)	Main	Natural Resource	Fuel Exports as a percentage of Merchandise Export	+	World Bank
GDP	Control	Size of Market	Host Country Gross Domestic Products (GDP) in USD (in log form)	+	World Bank
Trade (TR)	Control	Market Openness	Total import and export as a share of GDP (in log form)	–	World Bank
Openness to FDI (OF)	Control	Investment Policy	Ratio of overall host FDI to host GDP (in log form)	+	UNCTAD

Table 2
List of Sample (N = 77) countries categorized as OCED and non-OECD members.

No.	Non-OECD member countries	No.	OECD member countries
1	Angola	1	Australia
2	Antigua and Barbuda	2	Austria
3	Bahamas, The	3	Belgium
4	Belarus	4	Canada
5	Brazil	5	Chile
6	Brunei Darussalam	6	Czech Republic
7	Bulgaria	7	Finland
8	Cambodia	8	France
9	Colombia	9	Germany
10	Congo, Rep.	10	Greece
11	Ecuador	11	Israel
12	Egypt, Arab Rep.	12	Italy
13	Ethiopia	13	Japan
14	Georgia	14	Korea, Rep.
15	Guinea	15	Luxembourg
16	India	16	Mexico
17	Indonesia	17	Netherlands
18	Jamaica	18	New Zealand
19	Jordan	19	Norway
20	Kazakhstan	20	Poland
21	Kyrgyz Republic	21	Portugal
22	Lao PDR	22	Slovenia
23	Malaysia	23	Spain
24	Mauritius	24	Sweden
25	Mongolia	25	Switzerland
26	Myanmar	26	Turkey
27	Namibia	27	United Kingdom
28	Nepal	28	United States
29	Nicaragua		
30	Nigeria		
31	Panama		
32	Oman		
33	Peru		
34	Philippines		
35	Russian Federation		
36	Rwanda		
37	Saudi Arabia		
38	Sierra Leone		
39	Singapore		
40	South Africa		
41	Sri Lanka		
42	Tanzania		
43	Thailand		
44	Uganda		
45	Ukraine		
46	Venezuela, RB		
47	Vietnam		
48	Yemen, Rep.		
49	Zambia		

Table 3
Correlation matrix.

	OFDI	OT	RL	PS	FE	OME	OF	TR	GDP
OFDI	1								
OT	0.19***	1							
RL	0.263***	0.412***	1						
PS	0.136***	0.255***	0.76***	1					
FE	0.073	−0.089***	−0.261***	−0.205***	1				
OME	0.028	−0.182***	−0.154***	−0.006	−0.197***	1			
OF	0.042	−0.231***	0.029	0.204***	−0.062**	0.138***	1		
TR	−0.149**	0.012	0.26***	0.368***	−0.078*	−0.082*	0.445***	1	
GDP	0.415***	0.653***	0.516***	0.184***	0.074**	−0.236***	−0.370***	−0.190***	1

*** $p < 0.01$.
** $p < 0.05$.
* $p < 0.10$.

Results and discussion

Table 4 provides the regression results, where models 1 and 2 states the results when we regress for all the sample countries in this study. Following the method adopted by previous studies, we also split the sample countries into OECD and non-OECD member countries. Regression outcomes for OECD countries are shown under models 3 and 4, while non-OECD countries stated under models 5 and 6. The entire sample countries in this study are 77, where 28 countries are the OECD member and the remaining 49 countries are not members of the OECD [Table 2]. Models 1 and 2 reveal that Chinese OFDI is attracted by its outbound tourism, as it is statistically significant and positive, whereas the Granger causality also provides evidence of unidirectional causality that flows from outbound tourism towards OFDI [Table 5].

In OECD member countries, the relationship between overall Chinese OFDI and Chinese outbound tourism remains positive and significant. While overall Chinese OFDI is also has attracted by the host countries' institutional environment. The higher flow of Chinese tourist to the developed countries is due to the abundance of information by internet and television programs regarding such countries natural beauty, icons, and quality infrastructure, which are some of the primary sources and causes for Chinese tourist for finalizing a destination (Sparks & Pan, 2009). Thus, more frequent visits increase the information process cues, which attracts higher Chinese OFDI.

In non-OECD member countries, overall Chinese OFDI is not attracted by Chinese outbound tourism, as the results are not statistically significant in both models. One reason for this insignificance might be due to the lower level of Chinese OFDI to non-OECD member countries due to weak political stability in most of these countries. Li, Huang, and Song (2017) also find similar insignificance in both the OECD and non-OECD countries between Chinese OFDI and Chinese outbound tourism. Other than weak political stability, developing countries also have poor infrastructure and lesser information (online) regarding their natural beauty and icon (Li et al., 2017; Nadeem et al., 2020; Sparks & Pan, 2009). Thus, most of these countries do not take place in tourist lists as a destination due to such reasons.

Table 4
Regression results of panel data.

Variables	All		OECD		Non-OECD	
Model	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
OT	**0.471*****	**0.459*****	**0.327*****	**0.336*****	**0.027**	**0.006**
	(0.003)	(0.006)	(0.000)	(0.002)	(0.645)	(0.914)
	[0.151]	[0.163]	[0.088]	[0.106]	[0.059]	[0.056]
RL	**0.228**	–	**0.606*****	–	**0.326**	–
	(0.737)	–	(0.002)	–	(0.11)	–
	[0.680]	–	[0.200]	–	[0.203]	–
PS	–	**0.094**	–	**0.095**	–	**0.288***
	–	(0.796)	–	(0.709)	–	(0.072)
	–	[0.365]	–	[0.255]	–	[0.160]
FE	**0.023***	**0.022**	**0.013**	**0.015**	**0.009****	**0.006**
	(0.091)	(0.114)	(0.334)	(0.301)	(0.039)	(0.110)
	[0.013]	[0.014]	[0.013]	[0.014]	[0.004]	[0.003]
OME	**0.033***	**0.033***	**0.015**	**0.022***	**0.015****	**0.012***
	(0.069)	(0.075)	(0.144)	(0.071)	(0.010)	(0.050)
	[0.018]	[0.018]	[0.010]	[0.012]	[0.005]	[0.006]
OF	**0.093**	**0.093**	**0.185**	**0.176**	**0.098**	**0.087**
	(0.349)	(0.352)	(0.129)	(0.159)	(0.385)	(0.395)
	[0.098]	[0.099]	[0.122]	[0.125]	[0.113]	[0.102]
TR	**−0.31*****	**−0.29*****	**−0.418**	**−0.148**	**−0.307*****	**−0.291*****
	(0.001)	(0.000)	(0.318)	(0.715)	(0.006)	(0.003)
	[0.088]	[0.076]	[0.418]	[0.405]	[0.112]	[0.097]
GDP	**0.297**	**0.327**	**0.119**	**0.205**	**0.191****	**0.262*****
	(0.454)	(0.417)	(0.518)	(0.234)	(0.048)	(0.002)
	[0.395]	[0.401]	[0.184]	[0.173]	[0.096]	[0.082]
Constant	**−6.094**	**−6.679**	**0.959**	**−2.041**	**2.755**	**1.205**
	(0.519)	(0.485)	(0.879)	(0.722)	(0.196)	(0.502)
	[9.404]	[9.513]	[6.290]	[5.728]	[2.128]	[1.794]
Adj. R-sq.	16.97	15.81	28.36	21.79	21.07	21.71
Observations	324	324	153	153	171	171
Groups	77	77	28	28	49	49
	Diagnostic tests					
Serial correlation	1.10(0.30)	1.06(0.31)	0.51(0.22)	0.19(0.290)	1.9(0.187)	1.08(0.314)
Normality	0.44(0.80)	0.47(0.78)	3.89(0.14)	3.18(0.203)	0.482(0.78)	0.45(0.79)
Hausman test	12.75(0.078)	12.11(0.096)	6.68(0.46)	6.10(0.528)	3.81(0.80)	2.87(0.89)

p-Values in parenthesis and robust standard errors in square brackets.
*** $p < 0.01$.
** $p < 0.05$.
* $p < 0.10$.

Table 5
Granger causality results.

Granger causality	x^{2***}	p-Value
OT does not Granger-cause OFDI	4.536**	0.033
OFDI does not Granger-cause OT	2.53	0.615
RL does not Granger-cause OFDI	0.061	0.805
OFDI does not Granger-cause RL	1.634	0.201
PS does not Granger-cause OFDI	0.481	0.488
OFDI does not Granger-cause PS	0.521	0.471
FE does not Granger-cause OFDI	0.253	0.615
OFDI does not Granger-cause FE	0.168	0.682
OME does not Granger-cause OFDI	0.689	0.406
OFDI does not Granger-cause OME	0.512	0.474
OF does not Granger-cause OFDI	1.892	0.169
OFDI does not Granger-cause OF	0.116	0.733
TR does not Granger-cause OFDI	4.328**	0.037
OFDI does not Granger-cause TR	1.116	0.291
GDP does not Granger-cause OFDI	3.737*	0.053
OFDI does not Granger-cause GDP	0.511	0.475

*** $p < 0.01$.
** $p < 0.05$.
* $p < 0.10$.

Table 6
Robustness test results of panel data.

Variables	Without biggest OFDI receivers		Without metals and energy OFDI		Without tourism OFDI	
Model	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
OT	**0.117****	**0.096***	**0.720*****	**0.719*****	**0.446*****	**0.435*****
	(0.029)	(0.076)	(0.000)	(0.000)	(0.002)	(0.005)
	[0.053]	[0.054]	[0.169]	[0.171]	[0.140]	[0.151]
RL	**0.257****	–	**0.948**	–	**0.294****	–
	(0.030)	–	(0.254)	–	(0.016)	–
	[0.118]	–	[0.830]	–	[0.122]	
PS	–	**0.119**	–	**−0.226**	–	**0.192***
	–	(0.284)	–	(0.613)	–	(0.087)
	–	[0.111]	–	[0.446]	–	[0.112]
FE	**0.012*****	**0.009*****	**−0.076*****	**−0.075*****	**0.012*****	**0.008*****
	(0.001)	(0.008)	(0.008)	(0.008)	(0.002)	(0.010)
	[0.003]	[0.003]	[0.028]	[0.028]	[0.003]	[0.003]
OME	**0.011***	**0.010***	**0.037**	**0.037**	**0.015****	**0.014****
	(0.065)	(0.095)	(0.364)	(0.368)	(0.012)	(0.027)
	[0.006]	[0.006]	[0.040]	[0.041]	[0.006]	[0.006]
OF	**0.067**	**0.750**	**0.020**	**0.018**	**0.150****	**0.153****
	(0.321)	(0.279)	(0.854)	(0.870)	(0.048)	(0.041)
	[0.068]	[0.069]	[0.110]	[0.110]	[0.076]	[0.074]
TR	**−0.255****	**−0.194****	**1.443**	**1.751**	**−0.399*****	**−0.342*****
	(0.011)	(0.026)	(0.281)	(0.250)	(0.010)	(0.014)
	[0.100]	[0.087]	[1.336]	[1.379]	[0.155]	[0.139]
GDP	**0.023**	**0.101**	**0.117**	**0.413**	**0.145**	**0.224*****
	(0.755)	(0.105)	(0.858)	(0.523)	(0.107)	(0.001)
	[0.075]	[0.063]	[0.655]	[0.646]	[0.089]	[0.067]
Constant	**5.468*****	**3.59*****	**−11.81**	**−20.416**	**3.566**	**1.642**
	(0.002)	(0.009)	(0.554)	(0.315)	(0.113)	(0.356)
	[1.778]	[1.369]	[19.968]	[20.28]	[2.250]	[1.777]
Adj. R-sq.	11.98	10.32	42.70	42.31	23.76	22.53
Observations	273	273	220	220	319	319
Groups	72	72	60	60	74	74
	Diagnostic tests					
Serial Correlation	0.02(0.88)	0.30(0.58)	0.04(0.83)	0.10(0.74)	0.06(0.79)	0.08(0.77)
Normality	0.95(0.62)	0.85(0.65)	3.59(0.16)	3.60(0.17)	0.31(0.86)	0.31(0.85)
Hausman	7.24(0.404)	7.19(0.409)	30.3(0.001)	29.6(0.001)	10.1(0.178)	9.58(0.213)

p-Values in parenthesis and robust standard error in square brackets.
*** $p < 0.01$.
** $p < 0.05$.
* $p < 0.10$.

We conducted multiple robustness tests on the whole sample and found the results robust, as shown in Table 6. Model 7 and 8 estimates were taken after removing the top biggest receiver of Chinese OFDI from 2005 to 2017 (that are United States, Australia, United Kingdom, Switzerland, and Brazil). Model 9 and 10 estimates were taken after removing Chinese OFDI in metals and energy sectors from the sample. Model 11 and 12 estimates were taken by removing the Chinese OFDI in the tourism sector. Thus even after conducting multiple robustness tests, the relationship between overall Chinese outbound tourism and Chinese OFDI remains positive and statistically significant.

Our findings suggest that outbound tourism as an essential source of information, and acculturation reduces the equivocality and uncertainty of investing in the host country; thus, may subsequently aid the Dunning and Lundan (2008) motives in attracting the overall OFDI. When a tourist visits the host country, tourists enhance their understanding of the host country's investment opportunity and critically evaluate how the host country's local economy is different from the home country. Such provides the tourist with additional information cues, which are not observable through host country statistics. Interaction with the host country's local population provides the tourist with more insights about the host country's business environment, which tourist share with home country family and friends through word of mouth and social media (Latif, Malik, Pitafi, Kanwal, & Latif, 2020; Latif, Weng, Pitafi, Ali, Siddiqui, Malik, & Latif, 2021). Such positive experiences also create a positive vibe among potential investors, thus resulting in higher OFDI. To the best of our knowledge, this is the first study that provides a theoretically and empirically tested framework for the relationship between OFDI and outbound tourism, which we do not find in the study by Tomohara (2016).

This paper also offers policy guidelines for developed and developing countries to attract Chinese OFDI. Developed host countries should adopt better policies to boost their tourism industry, as this may increase investment in this specific sector and attract the overall FDI. While developing host countries, having a politically stable government and improved infrastructure would attract the overall FDI in the country. Overall, countries should carry awareness campaigns of their country's business environment by inviting people from Chinese business communities and also portraying such in the business exhibitions in China.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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