



**The influencing factors on Chinese enterprises' OFDI: evidence  
from China with countries along the “Belt and Road” initiatives**

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## **Abstract**

*In recent years, the academic focus of researchers has gradually shifted from the macro impact brought about by the “Belt and Road” initiative to the impact on micro-economic entities. This research aims to follow the trend and conduct quantitative research in the updated gravity model on micro-business entities. The analysis uses panel data of China’s OFDI flow from 59 countries along the “Belt and Road” route and relevant data from the host country from 2007 to 2018. This article follows the sampling method for the overall regression analysis. Besides, the research also divides the overall sample into Southeast Asia, Central and Eastern Europe, Central Asia, South Asia and West Asia. Accordingly, it examines samples of each region separately to study the differences in the influential level of main variables on China’s OFDI flow along the route. The study's statistical results imply that China’s direct investment in countries along the Belt and Road is affected by the host country’s market size, per capita income, resource endowments, technological endowments, and geographic distance*

**Key words:** *Belt and Road Initiatives, China’s OFDI, The Institution-based View, International Business.*

## INTRODUCTION

A massive rollout infrastructure built by China to drive trade between more than 60 countries is now the world's largest infrastructure project since the Marshall Plan (Office of the Leading Group for the Belt and Road Initiative, 2017). The grand plan is officially called the Belt and Road Initiative (BRI), previously recognized as the New Silk Road by the mass, aiming to build trains, railways, and rails container port across Asia and Europe (People's Republic of China, 2015). China is, therefore, investing in bridges, ports, railway tracks and roads around the globe. Over 70 nations are already part of the new Silk Road (OECD, 2018).

This massive new sphere of influence attracts researchers' attention to how China's outward foreign investment (OFDI) is motivated and spurred by BRI implementation. The heated discussion on the government's motivations of the massive infrastructure is mainly from an economic or political perspective (Enikeeva et al., 2016; Y. P. Huang, 2016; Mayfield & Mayfield, 2012; Yan et al., 2012; H. Yu, 2017). According to research in the last five years, the OFDI in emerging economics along the Slik Road plays a hedge to leverage the potential systemic risk of economic slowdown both domestically and internationally (H. Yu, 2017).

The latest wave of globalization from developing economies' domestic enterprises is not a new phenomenon in the twentieth-first century (J. H. Dunning, 2014; Fatima, 2017; Gorodnichenko et al., 2010; Jensen et al., 2011; Johnson & Turner, 2010). A prevailing view is that the millennium marks the beginning of the rapid growth stage of global business and OFDI sourced from emerging economies (Y. Luo et al., 2010). China, the focus of this research, has been the primary source of growing foreign investment from developing countries in the past two decades (Rienda et al., 2013).

Traditional studies propose that the motivations of such a grand international infrastructure plan are of great significance. The OECD suggests that governments are now playing an increasingly vital role in administrating and encouraging R&D activities in public and private sectors (OECD, 2001, 2018). Governments are currently in the place to substantially impact the R&D process in a complete economic cycle by guiding investors on the innovation process or directly participating in the financing of public institutions (Callahan, 2016). As the significance of the institutional role of government is clear to see, the influencing factors on Chinese enterprises' OFDI from an institution-based view are of great importance in the current situation.

According to OECD Business And Finance Outlook 2018, the main bulk of BRI-related projects are funded and invested in by Chinese state-owned banks working as the instrument of government investment decisions in response to the call for public objectives and common interests (OECD, 2018). Projects invested in by Chinese local governments or state-owned banks may reflect government investment decisions based on public objectives aimed at promoting domestic development or host country development (OECD, 2018), which would entail more Chinese FDI to poorer countries (Callahan, 2016).

the “One Belt One Road” initiative is likely to improve the investment environment. Due to the transnational nature of the “Belt and Road” initiative, financing restrictions are supposed to decrease through orderly economic integration, thereby improving multinationals’ investment capabilities (Callahan, 2016; Du & Zhang, 2018). Therefore, the company will respond to implementing the BRI initiative by increasing investment. With the support of open and global policies to spur investments in foreign markets from domestic investors, a nation’s domestic investment opportunities in the countries along the Silk Road will accordingly increase and generate benefits from domestic business participators in the future (Tekdal, 2018; Ye, 2020).

The research uses empirical research as the primary method to reveal the extent to which the company’s foreign direct investment decision has responded to the “Belt and Road”. The research collects public data and adopts the gravity model for the empirical analysis

## LITERATURE REVIEW

### Contextual Background

In the past ten years, with the rise of China, scholars have further explored whether the above correlation applies to China. Wang Shuli and Xiang Jiaojiao find through empirical research that the quality of political institutions is a crucial factor affecting the scale of OFDI from China (S. Wang & Xiang, 2015). Wei and He (2017) further show evidence that the quality of the host country's economic institutions can significantly promote China's overseas FDI (Wei & He, 2017).

However, on the contrary, there are also studies suggesting that the quality of the host country’s institutional system has an inhibitory effect on China’s OFDI (X. Li & Li, 2016). It suggests that the overlook towards differentiated OFDI motives may lead to potential differences in institutional preferences. Based on a resource- and institution-based view, researchers explain why China’s OFDI tends to flow to countries along the “Belt and Road” with lower economic and legal system quality which seemly not attractive (Jianjun Li et al., 2018). They believe that

the investment benefits brought by the host country's abundant natural resources can effectively offset the potential resistance to overseas investment caused by the poor quality of the institutional system. The mystery of Chinese companies' "institutional risk appetite" lies in the fact that their foreign direct investment often flows into regions rich in natural resources (Y. Shao et al., 2020; Yang J. et al., 2016).

### **From formal to informal: a shift in IB research hotspots**

In the last decade, an informal institutional system such as typical cultural organizations starts to play an effective supplement to the formal institutional system discussed above. During institutional changes, the two will infiltrate each other and jointly affect overseas investment behaviour. From the technological innovation and industrial upgrading theory introduced in "Technological accumulation and third world multinationals" (Cantwell & Tolentino, 1990), researchers are getting a clear pattern of the preference regarding developing economies' OFDI location decisions. OFDI from developing countries prefers neighbouring host countries given the ethnic ties that can effectively help overcome the "outsider disadvantage" of corporate investment caused by cultural differences or even conflicts between the home country and the host country.

In the context of China, the establishment of a network of overseas Chinese in the host country can effectively reduce cultural differences with Chinese investors and therefore promote OFDI scale and scope (Jianjun Li et al., 2019; Yuan & Zhu, 2017). It is applicable, mainly when a lack of private experience in international investment occurs and state-owned capitals take the lead in the foreign investment issues (Alon et al., 2012).

Detailed discussions then spurred by the original introduction of the cognitive influence on OFDI regarding different values, consciousness, and beliefs of the host country in the last century (Marano et al., 2016). Jiang and Jian empirically analyzes the OFDI data of 1,852 Chinese companies from 2004 to 2008, concluding that the host country's conservative social preference can inhibit Chinese enterprises' OFDI, and the openness regarding culture can effectively reduce investment risks (G. Jiang & Jiang, 2017). Studies have also found that expanding the scale of host country students' study and education in China promotes bilateral cultural exchanges (Gu & Qiu, 2017). Furthermore, the establishment of overseas Confucius Institutes has effectively reduced the negative impact of cultural distance between the two countries regarding the

spreading of Chinese culture, thereby promoting OFDI from Chinese domestic investors (Y. Chen et al., 2017).

For China, Li and Yang found that the well-maintained bilateral trade relationship between China and the five Central Asian countries has a significant positive effect on the OFDI of Chinese enterprises (D. Li et al., 2013). At the same time, the increase in trade costs caused by the establishment of trade barriers by the host country will result in the reduce of bilateral trade scope and scale, thereby affecting the OFDI decisions of enterprises.

Through systematic GMM methods, Wang and Zhou empirically conclude that the increase in trade costs between China and the host country's agriculture, forestry, fishery, animal husbandry and manufacturing sectors has significantly inhibited the OFDI of Chinese companies (Z. Wang & Zhou, 2019). However, scholars believe that it is the deterioration of national relations triggered by trade barriers and the de-globalization trend that drives companies to seek more OFDI instead of exports. Not surprisingly, the current researches match Helpman's opinion on the relationship between international investment and international trade (Helpman et al., 2004). He believed that companies choose to invest overseas through OFDI to reduce the negative impact of trade barriers and open up the international markets .

With the growing depth of globalization, as of the end of 2018, the number of global bilateral investment agreements reached 2,933, and nearly 2500 have entered into force. Meanwhile, China has signed 128 bilateral investment agreements, of which 109 have entered into force (UNCTAD, 2018).

As the home country's political support and guarantee for companies' overseas investments, Bilateral investment agreements can, to a certain extent, make up for the host country's institutional void. Researchers examine the impact of bilateral investment agreements on China's OFDI from the perspective of institutional distance. The empirical results show that the signing of bilateral investment agreements reduces barriers for Chinese companies to "go global" (P. Li et al., 2014), and such bilateral investment agreements have a significant moderating effect on the inhibitory effect caused by institutional distance. Although bilateral investment agreements have no direct impact on the location selection of cross-border mergers and acquisitions, they can necessarily make up for the lack of a stable and complete institutional environment in the host country (Zhu & Ren, 2018).

The prevailing opinion is that there is a complementary relationship between bilateral investment agreements and the host country's institutional environment. In other words, the ideal institutional environment of the host country and the signing of bilateral investment agreements are necessary prerequisites for effectively attracting OFDI. Similarly, based on the panel data of listed US energy companies from 2006 to 2013, research suggests that the signing of bilateral investment agreements increase the attraction of OFDI from overseas. Thus, the improvement depends on optimising the host country's institutional environment and the improvement law system (J. Chen & Ji, 2016).

### **Geographic distance and the introduction of the gravity model**

The first international direct investment model in IB research is raised by Andersen using the gravity model. The research shows that the bilateral investment flow between the two economies has a positive relationship with the income and population of both locations (Frenkel & Walter, 2019) and a negative relationship with the geographic distance between the two (Aisbett et al., 2018).

Under the Chinese context, researchers further conduct research using the expanded gravity model and conclude that bilateral geographic distance has obvious hindrance to the location selection of OFDI from China (Deng et al., 2019). The reason is that the increase in geographic distance is far more than an increase in transportation costs and operating costs. When the inevitable cultural gap between the host country and the target country reaches a certain level, the investment choices of enterprises regarding entry locations will inevitably become cautious (Y. Liu et al., 2018). Research in recent years refutes the research results of the 1980s. At that time, researchers widely believed that the vast trade costs caused by geographical distance indirectly promoted the development of China's OFDI, driving companies to trade and commerce with countries that are far away from China (L. Zhang & Xu, 2017).

### **Institution quality**

From an institution-based view introduced by Peng in "Journal of International Business Studies" for the first time in 2008, the complete and efficient infrastructure of the host country is not only conducive to the economic development of the country but also a critical hardware condition for attracting foreign direct investment (Meyer & Peng, 2016; Peng et al., 2008). The interconnection of infrastructure can effectively improve the convenience of transportation and information exchange services for enterprises in the host country, thereby reducing the operating costs of foreign capital and playing a positive role in attracting overseas investment.

Researchers point out that the improvement of the quality of infrastructure in countries along the “Belt and Road” has a clear positive role in attracting OFDI in China (H. Y. Liu et al., 2017a). Cui and Yu further use the panel threshold model to analyze and conclude that the role of infrastructure quality in the countries along the “Belt and Road” in promoting OFDI of Chinese companies will change with improved infrastructure quality (Y. Cui & Yu, 2017).

Especially in ASEAN member countries where the infrastructure is weak and incomplete, infrastructure (such as communication base stations, power facilities and highways) can significantly stimulate its attractiveness of overseas investment from Chinese companies. At the same time, such a phenomenon shows the characteristic of diminishing marginal efficiency. The possible reason lies in the uneven allocation of resources caused by the continuous investment in infrastructure construction, which led to the slowdown of economic growth in relatively underdeveloped regions and the reduction of market size, in other words, the reduction of the attractiveness of investment from Chinese investors.

On the other hand, the improvement of the host country’s infrastructure has reduced the export costs of enterprises, thereby driving enterprises to adopt low-risk export methods instead of OFDI to enter target overseas markets. Liu used the stochastic frontier gravity model to conduct research and concluded that the improvement of communications infrastructure in countries along the “Belt and Road” route has a significant negative impact on OFDI of Chinese companies (X. F. Liu et al., 2017), which further complete the modern thinking on the relationship between the infrastructure improvement and a location’s attractiveness towards foreign investors .

### **Motivation of OFDI: under the Chinese context**

Dunning (1982) integrates the OFDI motivations of enterprises in developed and developing countries and put forward the OFDI motivation theory for the first time in IB research (J. H. Dunning, 1982). However, Buckley and Liu believe that the imperfect capital market and institutional factors made the traditional OFDI theory not applicable to China (Buckley et al., 2007). Therefore, they propose three types of investment motives for OFDI from Chinese companies: market-seeking, resource-seeking, and strategic asset-seeking. Market-seeking OFDI aims to overcome the host country’s harsh trade barriers or open up the host country’s target market. The purpose of resource-seeking OFDI is to obtain abundant and cheap natural resources



of the host country to make up for the gap in the domestic resource supply chain. Strategic asset-seeking OFDI targets advanced technology or management experience in the host country.

### **Market-seeking OFDI**

Seeking market opportunities in the host country is the primary motivation for Chinese companies' OFDI. The size of the host country's market and market potential can directly affect the scale of OFDI in the capital-exporting country. Researchers usually use the gross domestic product (GDP) as an indicator for the host country's market size (Dhakal et al., 2007) and per capita GDP for measuring the economy's market potential (Walsh & Yu, 2010). The growth of the host country's economy means the growth of consumer demand and market size, and the sustained and stable market size and potential will help companies obtain scale effects and broad market prospects, thereby attracting companies to make investment decisions. Buckley and Liu empirically analyze the OFDI panel data of Chinese companies in 49 countries from 1984 to 2001 and find a clear positive correlation between the OFDI of Chinese companies and the per capita GDP of the host country (Buckley et al., 2007). Luo and Ge also believe that China's OFDI tends to flow into countries or regions with large markets (W. Luo & Ge, 2013). However, some researchers have concluded that there is no significant relation between the location of OFDI in China and the the host country's market size (W. Song & Xu, 2012). Meanwhile, the host country's market size has a significant negative impact on the investment-attracting country OFDI (Chou et al., 2011). The possible reason for the difference is that the local competitive market tends to exclude foreign companies such as Chinese companies at the early stage of going global when China's enterprises are competing with companies from the host country or mature multinational companies, leading to entry barriers.

### **Resource-seeking OFDI**

The endowment of natural resources is another driving force for companies' overseas direct investment. China is concerned that it has a massive demand for natural resources such as oil and ore. The exploitation and acquisition of cheap natural resources overseas can help reduce the production and operation costs of Chinese domestic enterprises and effectively make up for the gap in the supply and demand of domestic resources. In recent years, Chinese enterprises' overseas direct investment amount towards countries with rich natural resources increases annually, further supporting the idea that resource-seeking motivation has become the main drive for Chinese OFDI.

The research of Kolstad and Wiig shows that most OFDI in China flows to countries with a combination of abundant natural resources and however harsh institutional environment or even institutional void (Kolstad & Wiig, 2012). Wang conducts research based on the global OFDI micro-data of Chinese companies and similarly come to the conclusion that China's OFDI is driven by a clear motivation for resource acquisition (Y. Wang et al., 2014). Compared with private enterprises, the natural resource preference characteristics of Chinese state-owned enterprises are more prominent (L. Song & Wu, 2018). In recent years, the growing de-globalization trend resulted in foreign nations's raising barriers to entry for resource-based overseas investment by Chinese companies.

### **Strategic asset-seeking OFDI**

In order to narrow the technological gap between domestic markets and those in developed economies and achieve long-term strategic goals, multinational companies in developing countries are seeking future reverse technology spillovers by establishing a long-term strategic relationship with leading technological benchmark companies in host countries.

A research shows that Chinese companies are changing location strategies to develop and maintain strategic relationships with technologically rich countries abundant in human intelligence and rich regulatory experience (Gurtovoy & Yang, 2013). The advanced technological level and business management experience of the host country can trigger and exert the possible reverse technology spillover effects on Chinese domestic markets. Yao Yao and Sun find through their research that another primary motivation of China's OFDI since 2000 is to pursue advanced technology (Yao & Sun, 2007).

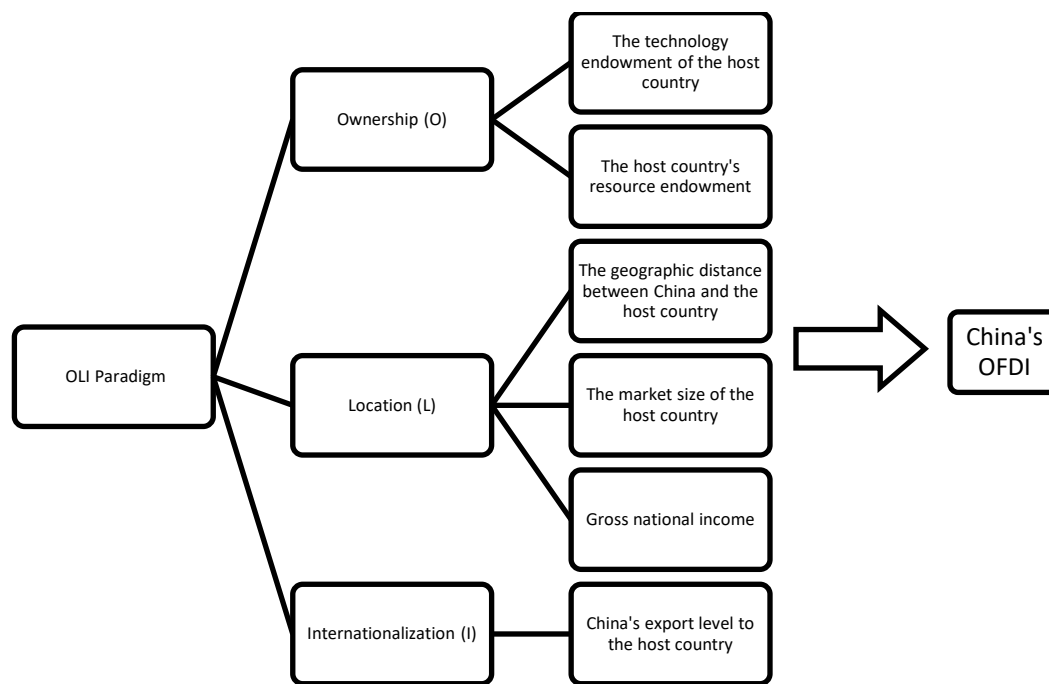
Follows is a modified theoretical framework based on Dunning's classical OLI paradigm in the international business field to analyze China's OFDI from an institution-based view (J. H. Dunning, 2001). Particularly, this conceptual model supplements researchers' earlier work on identifying determinants of China's fast-growing OFDI (Liang et al., 2011; B. Ren et al., 2010).

The ownership (O) factors represent resources and capabilities exclusive to other economies (J. H. Dunning & Lundan, 2008). Thus, this study includes technology and natural resource as two indicators in this sector. The internalization (I) determinants tell the way country-specific institutions condition foreign market depending on the various motivation of OFDI (J. H. Dunning, 2001). In this study, export as the primary entry mode is monitored for research

purpose. The location (L) factors indicate an economy's non-transferable characteristics (J. H. Dunning & Lundan, 2008; Liang et al., 2011). The market potential is one of the typical indicators when monitoring OFDI flow. The geographic distance between China and the host country, the market size of the host country and gross national income are three factors as introduced in the literature review.

**Figure 1**

Influential factors on China's OFDI: by modified OLI paradigm



In addition, previous literature does not reach a consistent conclusion on the impact of the host country's business environment on corporate OFDI. Some researchers have concluded that a well-developed business environment will inhibit foreign direct investment, contrary to the traditional investment risk aversion theory. Through comparison, this study believes that the possible reasons for such differences may be as follows:

- (1) The research samples are biased. OFDI has a different sensitivity to the business environment of developed and developing countries;

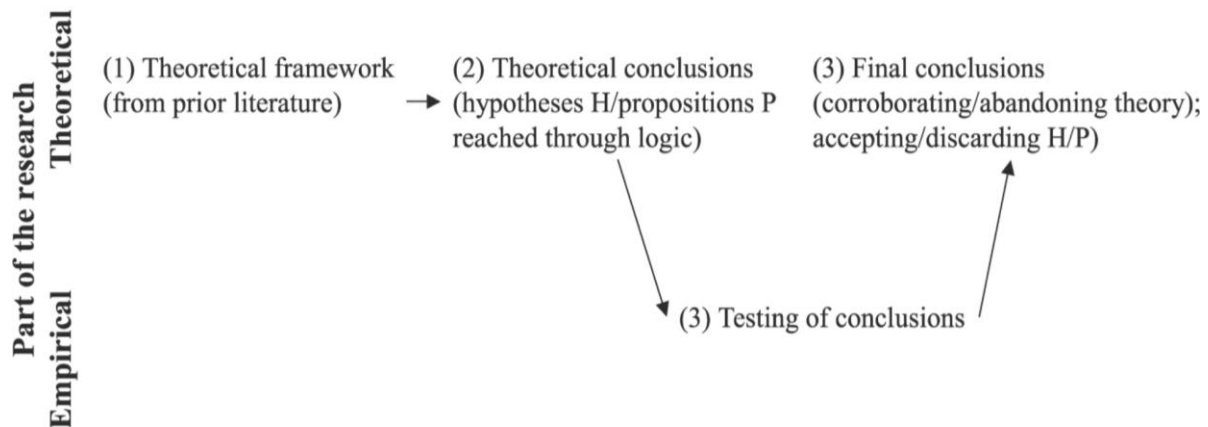
- (2) Data selection method needs to be improved. Some researchers use OFDI flow data while others using accumulative data for analyzing;
- (3) Researchers often ignores that OFDI motives may be heterogeneous varying from companies.

## RESEARCH METHDODILGY

The mainstream research approaches are terms of inductive, deductive, inductive and abductive. The deductive approach starts with theoretical conclusions from the literature review to hypothesise, and then it introduces empirical research (Spens & Kovacs, 2012). Conclusions drawn from such deduction would base on the corroboration or falsification of the prior hypothesis (Popper, 1959).

**Figure 2**

Deductive research process.



Referring to previous research methods, it can found that many articles conducted empirical research on influential factors on China's OFDI (Deng et al., 2019; X. Ren & Yang, 2020; X. Shao, 2020; C. Wang & Hong, 2020). Therefore, this study conducts an empirical analysis of the

influencing factors of China's direct investment in countries along the "Belt and Road" and analyzes the impact of heterogeneity regarding a country's economic development.

Most of the existing researches take the countries along the "Belt and Road" as a whole. Therefore, this article follows the sampling method for the overall regression analysis. However, this research also divides the overall sample into Southeast Asia, Central and Eastern Europe, Central Asia, South Asia and West Asia.

The Gravity model is widely adopted in various fields, especially in the IB field of international trade and investment. Since Tinbergen's first introduction of the gravity model to the trade field in 1962 (Tinbergen, 1962), the equation has been widely adopted to measure the volume of bilateral trade and nowadays for the decisive factors of OFDI (Ledyeva & Linden, 2006).

Newton introduced the Gravity equation, which originated in physics and is a mathematical model used to analyze and predict the interaction force in space. Given the equation (see below), the magnitude of the interaction between any two objects is proportional to their mass and inversely proportional to the square of the distance:

$$F = G \cdot \frac{m_1 m_2}{d^2} \quad (1)$$

In Eq (1), F represents the force of interaction between two objects, namely gravity. G equals the gravitational constant, m1 and m2 represent the mass of the two different objects, and d represents the distance between the two objects.

The conclusion drawn by IB researchers is that the bilateral trade volume between the two countries is related to their market size, GDP, and the geographic distance between the two countries. Interestingly, using the gravity equation, researchers find that the volume of bilateral trade is directly proportional to the market size of the two countries and inversely proportional to the geographic distance between the two countries (Khan et al., 2020; A. Liu et al., 2020). The following modified gravity equation can express the relationship:

$$TRAD_{ij} = \alpha \frac{Y_1 Y_2}{D_{ij}} \quad (2)$$

According to the above updated Eq (2), i and j respectively represent two different countries, TRAD<sub>ij</sub> represents the trade volume between the two countries, Y represents GDP, and D<sub>ij</sub> represents the distance between the two countries.

## DISCUSSION AND RESULTS

### Analysis of Results

#### Model estimation and testing

This section conducts a correlation analysis given the possible multi-collinearity. This section introduces many independent variables, which may result in a correlation among the variables. Therefore, in this section, a Pearson correlation test is introduced using stata15 software. The results are presented in Table 1.

**Table 1**

Correlation coefficient matrix.

	lnofdi	lngdp	lnex	lngni	lnmine	Intech	Indist
lnofdi	1						
lngdp	0.452***	1					
lnex	0.698***	0.786***	1				
lngni	0.131***	0.239***	0.0518	1			
lnmine	-0.0098	0.0011	-0.088**	0.340***	1		
Intech	0.119***	0.194***	0.256***	0.340***	0.078*	1	
Indist	0.136***	0.096**	0.207***	0.0211	0.0073	0.135***	1

Note: \* p < 10%, \*\* p < 5%, and \*\*\* p < 1%. Same as below.

In Table 1 reporting correlation coefficient matrix, there is evidence showing that the correlation coefficients of the host country's GDP, China's merchandise exports to the host country, the host country's technological innovation capabilities, the geographic distance from China to the host country, and China's overseas direct investment are respectively 0.452, 0.698, 0.119, and 0.136. The above results all show statistical significance at the 1% confidence level. Meanwhile, the host country's GDP, China's export volume of goods to the host country, the host country's technological innovation capabilities, and the geographic distance from China to the host country have a significant positive correlation with China's OFDI flow.

The correlation coefficient between the host country's per capita income and China's direct investment in the host country is -0.131, which indicates that the result passes the significance test at the 1% confidence level. Therefore, it can be concluded that there is a significant negative correlation between the host country's per capita income, political environment, and China's direct investment in the host country, respectively.

### **Regression analysis**

Table 2 presents the regression results. After introducing all control variables, the R<sup>2</sup> value of the fixed effects model is 0.317, which means that the overall model is significant; that is, the regression results are credible. Among them, the regression coefficients of variables such as China's commodity exports to the host country and the host country's per capita income have passed the significance test, indicating that the above factors significantly impact China's direct investment in the host country.

**Table 2**

Overall sample regression analysis using fixed-effects model

	(1)	(2)	(3)	(4)	(5)
	lnofdi	lnofdi	lnofdi	lnofdi	lnofdi
lngdp	2.851*** (0.182)	1.310*** (0.228)	0.458 (0.297)	0.448 (0.311)	0.156 (0.342)
lnex		1.241*** (0.121)	1.113*** (0.129)	1.101*** (0.137)	0.948*** (0.147)
lngni			2.589*** (0.539)	2.962*** (0.577)	3.720*** (0.657)
lnmine				0.139 (0.120)	0.179 (0.116)
Intech					(0.011) (0.072)
Constant	-9.176*** (1.192)	-14.51*** (1.217)	-30.49*** (3.743)	-34.11*** (4.228)	-37.03*** (4.749)
N	706	706	706	706	706
R <sup>2</sup>	0.275	0.379	0.364	0.346	0.317

Note: \* p < 10%, \*\* p < 5%, and \*\*\* p < 1%. Same as below.

Based on the FEM estimation, further examination is conducted on the dynamic effects of China's OFDI flow in countries along the "Belt and Road" route to further discuss the impact of the previous period of foreign direct investment on the current period of China's OFDI flow exists. Specifically, based on the panel model, the lag of direct investment in the countries along



the “Belt and Road” is introduced as the control variable. This section includes the dynamic panel GMM method for estimation.

The regression results are shown in Table 3. Column (1) is the regression analysis based on the fixed effects model, and Column (2) is the regression analysis based on the GMM method. The P-value corresponding to AR(1) is 0.001, indicating a first-order serial correlation. The P-value corresponding to AR(2) is 0.229, showing no second-order serial correlation or evidence on the endogeneity. The P-value corresponding to the Hansen test is 0.916, meaning that the instrumental variables are valid and the regression results are credible.

According to the regression coefficients of the variables, results imply that the regression coefficient of the lagged variable of China’s direct investment in the countries along the “Belt and Road” shows the statistical significance and is significantly positive. Therefore, it implies that China’s direct investment in the countries along the “Belt and Road” has a dynamic effect; that is, the foreign direct investment in the previous period promotes the scale of China’s OFDI in the current period.

Second, after considering the dynamic effects of foreign direct investment, compared with the regression results of the fixed effects model, the host country’s GDP, the host country’s resource endowments, and the host country’s technological level can significantly promote China’s direct investment in the country. Meanwhile, the more China exports to the host country, or the greater the distance between China and the host country, the less China's direct investment volume in the host country.

The study's statistical results imply that China’s direct investment in countries along the Belt and Road is affected by the host country’s market size, per capita income, resource endowments, technological endowments, and geographic distance. Interestingly, as expected, the above influencing factors have different effects on different regions, which implies that the previous investment from China in the host country is likely to increase the OFDI flow in the next period. Besides, there is a specific substitution effect between China's foreign investment and exports between China and the Belt and Road countries.

## RECOMMENDATIONS

First of all, it is necessary to improve and update the existing financial system. Typical platforms can include platforms for public exchange of investment information, financial networks for investment and financing, legal service networks, and insurance service platforms. Due to the transnational nature of the “Belt and Road” initiative, orderly economic integration can effectively reduce financing restrictions (Callahan, 2016; Du & Zhang, 2018). In turn, the financial system and the infrastructure of the Belt and Road can thus form a virtuous circle, providing accurate and effective services for enterprises in information exchange, financial investment, and legal insurance.

Second, the government should promote bilateral agreements and investment agreements for the sake of overseas direct investments. Although research suggests that there is no evidence that bilateral investment agreements directly impact the location of cross-border mergers and acquisitions, they can certainly make up for the lack of a mature institutional environment in the host country (Zhu & Ren, 2018). The Chinese government and those who intend to promote OFDI in countries along the route should make full use of multiple channels such as cross-border mergers and acquisitions, greenfield investment, and equity investment to materialize the investment.

Last but not least, the government should participate in the construction of regional institutional systems to improve the overall regional business environment. Typical investment and financing mechanisms such as the BRICS Development Bank and the Asian Infrastructure Investment Bank are supposed to support the government with financial and political support. Meanwhile, it is necessary to encourage infrastructure construction in countries along the Belt and Road while encouraging Chinese companies that engage in critical industries such as the energy sector to enter markets with institutional voids in order to gradually transform its position from the enforcer of investment rules to the maker of investment rules. The "Business Environment Index" and "Distance Border Score" introduced in Chapter 2.3 are typical global investment applications.

## CONCLUSION

China's outward direct investment in the countries along the "Belt and Road" is sustainable during two consecutive reporting periods; that is, the outward direct investment in the previous stage is statistically significant for the outward direct investment in the next stage. The result is consistent with the conclusion drawn by Jiao Wenyi, further supporting the continuity of China's OFDI investment in location selection (W. Jiao, 2020).

There is a substitute relationship between China's OFDI flow in the countries along the "Belt and Road" and the export volume of the host country. This result is in line with Liu and Zhang's conclusions (H. D. Liu, 2016; J. Zhang, 2018). They use the systematic GMM method and conclude that the increase in trade costs between China and the host country's agriculture, forestry, fishery, animal husbandry and manufacturing sectors can significantly inhibit the OFDI of Chinese companies. However, the result of this article is against the views of Li and Yang. Their study found that the bilateral trade relationship between China and the five Central Asian countries has a significant effect on the OFDI of Chinese enterprises (D. Li et al., 2013). The possible reason for the conflict may lie in the different sample selection. They only analyzed the bilateral trade between China and five Central Asian countries for research, the conclusions of which may not apply to all economies along the BRI route.

The host country's market size, per capita income, resource endowment, technological endowment, and geographic distance significantly impact China's foreign direct investment in countries along the "Belt and Road". The result of this analysis is in line with the views of previous literature review (H. D. Liu, 2016; S. Wang & Xiang, 2015), and indirectly proved that the OFDI behaviour of Chinese companies is subject to motives of seeking the host country's market size, resource endowments and strategic assets .

The effects of the above factors are various according to regions as expected, which is consistent with the prevailing opinion of researchers that there is evidence showing the existence of heterogeneous effects as for the impact of variables on China's OFDI (.. Given the literature review, previous researchers select middle-income countries, poor countries and OECD countries as samples for empirical analysis and discussion. The possible reason for such impacts may lie in the fact that the location selection of Chinese companies shows heterogeneous preference when



given different investment motivations. Thus, future research may consider the OFDI motivation when selecting variables

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