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Study on Location Choices of China's OFDI along the Belt and Road Initiative——Based on the perspective of institutions, tax burdens and natural resources

PeiZhi Wang[1, a], ZheNing Yu[2, b, *] and YuHan Zheng[3, c]
[1,2,3]Shandong University of Finance and Economics, Jinan
[a]wpzmail@126.com, [b]ljxyzn@163.com, [c]andy19940119@163.com

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Abstract. This paper is based on the panel data of 64 countries in the period of 2007-2016 along the"Belt and Road", using the conditional logit model to study and analyze the host country's discourse power and accountability, government efficiency, political stability and the elimination of violence and terrorism, and the quality of supervision. The impact of these six categories of institutional factors on the choice of OFDI locations in countries along the "Belt and Road" is based on the level of the rule of law and the control of corruption. In addition, this article also discusses the impact of tax burden factors and natural resource endowments, as well as their interplay with institutional factors. Through research, it has been found that Chinese companies' OFDI does not place much emphasis on the host country's level of corruption control and the rule of law. It also tends to focus on the political system (discourse and accountability), government efficiency, political stability, and the elimination of violence/terrorism and the rule of law. Level and focus on countries that tend to monitor strict quality systems.

1. Introduction

According to the statistics of China's Foreign Direct Investment Statistics Bulletin from 2004 to 2013, China has conducted direct foreign investment in 64 countries along the Belt and Road Initiative. Among them, China's total investment in the countries along the "Belt and Road" in 2013 was approximately US$15.53 billion. The main investment concentration areas were: ASEAN countries amounted to approximately US$8.32 billion (accounting for 53.56%), and West Asia countries accounted for US$4.01 billion. (about 25.84%), the CIS countries are about 1.16 billion US dollars (about 7.08%), the Central Asian countries are about 1.10 billion US dollars (about 7.08%), and the South Asian countries are about 460 million US dollars (about 2.97%). East Asian countries are about 390 million US dollars (about 2.50%), and Central and Eastern Europe are about 90 million US dollars (about 0.55%).

This paper will use the micro-data of overseas mergers and acquisitions in China along the "Belt and Road" in the 10 years from 2007 to 2016 to study and analyze the location, the system of taxation and natural resource endowment of the host country, and the location choice of China's OFDI in the "Belt and Road" countries. The impact and the alternative or complementary relationship between these factors.

2. Analysis of the Influence of China on the Location Choice of Foreign Direct Investment in the "Belt and Road" Countries Based on Institutional Factors

2.1 Control variables and their expected effects

In terms of measurement methods, this paper mainly uses the conditional logit model to study how institutional factors affect China's location choice for OFDI in the "Belt and Road" countries.

2.1.1 National level variable

As a representative variable of the size of the host country's market, GDP is a key factor in determining the entry of foreign direct investment (Buckley et al., 2007). The larger the market size of

the host country, the more the OFDI can fully leverage its economies of scale and scope. Therefore, this paper expects GDP to positively influence China's location choice for OFDI in the “Belt and Road” countries.

The GDP growth rate is a percentage of the annual growth rate of GDP based on market prices and based on constant local currency. It is calculated based on the constant value of the US dollar in 2000. The calculation of this variable does not deduct the depreciation of manufacturing assets and the consumption of natural resources. Therefore, this paper expects that the GDP growth rate will positively affect China's location choice for OFDI in the “Belt and Road” countries.

Per capita GDP is calculated by dividing the GDP of the year by the mid-year population. This variable reflects the wealth of a country and indirectly measures the wage level of the host country. The theory proves that the inflow of FDI is mainly to use the labor resources of the host country, especially in developing countries. Therefore, this paper expects that per capita GDP will positively affect China's location choice for OFDI in the “Belt and Road” countries.

Geographic distance is the distance between two countries (the distance between the capitals of the two countries) calculated according to Google Earth. Generally speaking, the farther the distance between the two countries is, the higher the cost of transportation and the cost of obtaining information, and the less profit the company has. Therefore, this paper expects the role of geographic distance to be negative.

The total tax rate measures the percentage of the company's total tax payable after tax deduction. The existing literature proves that part of China's OFDI is a phenomenon of capital flight to avoid domestic taxation. Therefore, this article expects the role of the total tax rate to be negative.

Natural resource endowments are based on a country's mineral resource exports and fuel exports. China, which is in the stage of industrial production, faces the situation of lack of natural resources in China. The motivation of most enterprises OFDI is to obtain the rich natural resources of the host country. Therefore, this paper expects that natural resources will positively influence China's location choice for OFDI in the “Belt and Road” countries.

2.1.2 Industry-level variables

Labor resources measure the labor resources of the host country. First, high labor costs mean that the higher the production cost of the enterprise, the less profit it will get. Second, it can reflect the employment structure of the company to a certain extent. In general, high-quality employees will increase the productivity of the company, so the per-capita salary of high-quality employees will increase relatively. Therefore, the higher the labor cost, the higher the proportion of high-quality employees, thus attracting More foreign capital inflows. Therefore, the direction of labor costs is uncertain.

2.2 Empirical analysis

Among them, this paper introduces a new variable, the Institutional Average, which is calculated by averaging six institutional factors and is used to measure the impact of the overall institutional quality.

2.2.1 The influence of control variables and institutional variables

Table 1.Regression results (condition logit) of overall institutional quality in the location selection model

	Dependent variable: enter =1, do not enter =0				
	(1)	(2)	(3)	(4)	(5)
Quality	0.0156* (0.00909)	0.0304** (0.0121)	0.00727 (0.00966)	0.0168* (0.0108)	0.0232* (0.0135)
LnGDP	0.537*** (0.106)	0.817*** (0.128)	0.545*** (0.110)	-3.607*** (0.811)	-2.826*** (0.765)
GDPrate	0.00846 (0.0203)	-0.00132 (0.0214)	0.0129 (0.0216)	-0.0137 (0.0217)	-0.0114 (0.0241)
LnPerGDP	-0.0748 (0.156)	-0.698*** (0.203)	0.0922 (0.175)	3.813*** (0.765)	3.086*** (0.814)
LnDIST	-0.188 (0.409)	-0.0355 (0.430)	-0.204 (0.421)	-0.626* (0.434)	-0.536* (0.468)
TAX		-0.0439*** (0.0135)			-0.0268** (0.0124)
Nature			0.00891 (0.00622)		0.00832 (0.00707)
LnLABOR				4.214*** (0.817)	3.647*** (0.769)
Constants	-14.35*** (4.584)	-16.33*** (5.056)	-15.32*** (5.117)	-6.313 (4.808)	-10.13* (5.688)
Numbers	628	593	628	628	593

The regression results show that the overall institutional quality is significant in the four regressions, and the coefficients are positive. Therefore, this is a good illustration of China's preference for OFDI in the "Belt and Road" countries to flow into countries with better institutional environments. The GDP variable is significantly positive at the 1% significance level in the five regressions, which indicates that China's OFDI in the "Belt and Road" countries is more inclined to invest in countries with larger economies. This conclusion is consistent with the expected direction of the variables described earlier in this paper. For GDP growth rate and per capita GDP, the sign of the coefficient is not certain, and the GDP growth rate is not significant in all regressions. Per capita GDP is only significant in the three regressions. Therefore, some of the results show that China's OFDI in the "Belt and Road" countries tend to flow to countries with higher per capita GDP. The geographic distance is only significant in the two regression results, but all coefficient symbols are negative. To a certain extent, this shows that Chinese enterprises are more inclined to invest in countries closer to China when they choose the location of OFDI in the "Belt and Road" countries. Consistent with the expectations described earlier in this article. The total tax rate variable is significant in all regression results and the coefficients are negative. This result shows that China's OFDI in the "Belt and Road" countries is more inclined to choose countries with lower tax rates, which also verifies that China's OFDI has more choices in tax havens. According to all the regression results, in general, China's OFDI in the "Belt and Road" countries tends to choose a country with a relatively sound system, a low tax rate and a relatively abundant natural resources, and the overall behavioral model and international multinational corporations. The behavior is consistent.

2.2.2 The role of six institutional variables

Table 2. Six dimensions of the system and the OFDI location selection model

	Dependent variable: enter =1, do not enter =0				
	(1)	(2)	(3)	(4)	(5)
Account	0.0288*** (0.00921)	-0.0115 (0.0105)	0.0384*** (0.0113)	0.0215** (0.00951)	-0.0142 (0.0125)
Political	0.0198 (0.0124)	0.0253** (0.0114)	0.0207* (0.0124)	0.00959 (0.0119)	0.0120 (0.0118)
effectiveness	0.0467** (0.0223)	0.0552** (0.0216)	0.0338 (0.0227)	0.0320 (0.0235)	0.0319 (0.0228)
Supervision	0.0551** (0.0236)	0.0434* (0.0225)	0.0668*** (0.0251)	0.0496** (0.0241)	0.0455* (0.0250)
law	-0.0312 (0.0253)	-0.0169 (0.0284)	-0.0245 (0.0261)	-0.0101 (0.0259)	0.00189 (0.0290)
corruption	0.0256 (0.0242)	0.0500* (0.0291)	0.0415 (0.0269)	0.0275 (0.0244)	0.0587* (0.0313)
Constants	-12.28** (5.877)	-14.13** (5.506)	-15.98** (7.295)	-6.005 (6.280)	-11.82 (7.333)
Numbers	628	593	628	628	593
Contained control variables	1,2,3,4	1,2,3,4,5	1,2,3,4,6	1,2,3,4,7	1,2,3,4,5,6,7

Control variables: (1) GDP (logarithm); (2) GDP growth rate; (3) GDP per capita (logarithm); (4) geographic distance (logarithm); (5) total tax rate; Natural resource endowment; (7) labor cost (logarithm).

In general, institutional factors do influence China's location choices for OFDI in the “Belt and Road” countries, but not all six factors have significant effects. Political stability and the elimination of violence/terrorism, government efficiency, regulatory quality and corruption control all have positive effects, of which the impact of regulatory quality is most significant. The influence of discourse power and accountability, and the level of the rule of law are not significant. This shows that in China's location choice of OFDI in the “Belt and Road” countries, enterprises pay special attention to the quality of supervision of the host government.

3. Summary

First, the institutional factors of the host country have a significant impact on the location choice of China's OFDI in the “Belt and Road” countries. However, the influence of the institutional factors of the six dimensions is obviously different. Most of the “Belt and Road” countries are developing countries. China’s OFDI in the “Belt and Road” countries is different from most multinational companies. China’s OFDI pays less attention to the host country’s corruption control and rule of law, and more concerned with the political system (discourse power and Accountability), government efficiency, political stability and the elimination of violence/terrorism, the level of the rule of law, and the emphasis on countries with strict quality control systems.

Secondly, taxation and natural resource endowment factors are also decisive factors in determining China's choice of OFDI location in the “Belt and Road” countries. According to empirical analysis, China's OFDI has obvious motives for avoiding taxes and obtaining natural resources of the host country. The low tax rate and abundant natural resources of the host country are difficult to offset the negative impact of the imperfect overall system on China's choice of OFDI locations in the “Belt and Road” countries. Therefore, Chinese enterprises will pay more attention to the influence of the overall institutional environment of the host country in the OFDI of the “Belt and Road” countries.

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