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The Analysis of Institutional Factors and Chinese Outward Foreign Direct Investment Under the Belt and Road Initiative

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Abstract

Based on the combined data of the World Bank's World Governance Indicators, World Development Indicators, etc., and taking 132 countries around the world from 2003 to 2019 as samples, this paper analyzes the effect of the institutional factors on outward foreign direct investment of China along the "Belt and Road". Based on the four inspection dimensions, the paper examines the impact of the four factors on the outward foreign direct investment of China in the full sample countries and countries along the "Belt and Road". The results show that the quality of political institution, economic freedom and the bilateral investment agreements have a significant positive impact on it. And cultural distance has a significant negative impact on it. The role of the four institutional factors in the countries along the "Belt and Road" has been weakened or strengthened to varying degrees. There is obvious heterogeneity between different development levels and different regions.

Keywords: the "Belt and Road" initiative, institutional factors, OFDI

1. Introduction

The "Belt and Road" is an inter-country cooperation initiative proposed by China, of which foreign direct investment is an important part. The main directions of the initiative are expanding the scale of direct investment, promoting investment facilitation, and encouraging Chinese enterprises to participate more in the development of a series of industries. According to statistics from the Ministry of Commerce of China and the United Nations Conference on Trade and Development (UNCATD), the net foreign direct investment of China in 2020 reaches 153.71 billion US dollars, a year-on-year increase of 12%. And the net foreign direct investment in countries along the "Belt and Road" reaches 22.54 billion US dollars, a year-on-year increase of 20.6%, and the growth rate far exceeds the average level, which shows that China's foreign direct investment in countries along the "Belt and Road" has achieved great development as a whole.

When to select the location of foreign direct investment, "institution" has always been an important factor, which is related to the performance of direct investment and investment income of enterprises. Especially, when enterprises conduct foreign direct investment along the "Belt and Road", they face a very complex institutional environment: countries along the route have complex national conditions about issues in economic level, political governance, and cultural cognitions. They have caused a lot of trouble for relevant companies in the choice of target countries, investment industries, and development methods. Identifying and solving the "institutional challenges" of countries along the "Belt and Road" has become one of the main issues faced by enterprises in the investment decision-making process.

Based on theoretical analysis, this paper will combine data from multiple databases such as the World Bank's World Governance Indicators, World Development Indicators, American Heritage Foundation Database, EPS, and CEPII to form panel data covering 132 countries around the world from 2003 to 2019 set. We construct a fixed effect model to explore the impact of host country's institutional factors on China's OFDI in the context of

the “Belt and Road Initiative”.

2. Literature Review

2.1 Studies on the “Belt and Road” Initiative and China’s Foreign Direct Investment

Previous studies on the “Belt and Road” initiative and foreign direct investment basically focus on risk analysis and development prospects. Chen and Li (2018) pointed out through theoretical analysis that China’s foreign direct investment along the route mainly faces three risks: religion, political conflict and economy, and the cooperation between financial insurance institutions and enterprises can effectively reduce these risk factors; Chen et al. (2019) pointed out that the initiative will play an active role in breaking public doubts through cooperation and integrating into world development through openness.

Some literature takes the “Belt and Road” initiative policy itself as the direct research object and conducts effect analysis. Lv et al. (2019) studied the relevant data of corporate greenfield investment of China from 2005 to 2016 and found that this initiative has a significant role in promoting greenfield investment by Chinese enterprises. Zhang and Xie (2020) found that this initiative can significantly reduce the political risk of direct investment using the micro data of China’s global investment tracked. In general, the research conclusions on the policy effect of the initiative on direct investment are relatively uniform: that is, the proposal of the initiative has a positive effect on the expansion of China’s OFDI or the reduction of investment risks.

2.2 Studies on the Effect of Institutional Factors on Foreign Direct Investment

Scholars have conducted a lot of discussions on this issue in recent years, but the research results are inconsistent. There have always been three different conclusions: “institutional uncertainty theory”, “institutional promotion theory” and “institutional hindrance theory”. Supporters of the “institutional promotion theory” believe that a good institutional environment in the host country will suppress uncertainties, reduce investment risks, costs and expenses, and bring about stable expectations, thereby promoting direct investment (Wang, 2017; Wang et al., 2018). Supporters of the “institutional hindrance theory” emphasize the negative impact of the host country’s system, and some countries have become the focus of China’s foreign direct investment due to their imperfect systems (Qian et al., 2019). The proponents of “Institutional Uncertainty Theory” believe that institutions have both positive and negative effects. They believe that institutional factors have positive effects in developed countries and negative effects in developing countries (Ji, 2014); Good regulatory governance in the host country has a positive impact, and political stability and corruption have an inhibitory effect (Pan et al., 2019), etc.

The main reason for the inconsistencies in the conclusions of relevant studies is the divergence in the definition of the connotation of “institutional factors”. Institutions refer to social norms, rules and identities that have a restrictive effect, and are the rules produced by the society under the multi-party game; according to institutional economics and new institutional economics, the purpose of institutions is to facilitate exchanges, reduce uncertainty in transactions, and reduce production and transaction costs (Douglas North et al., 2002). Therefore, institutional factors should involve multiple aspects such as politics, economy, rule of law, custom and morality.

1). Political system and OFDI: When talking about “institutional factors”, it is always understood as the political system and national political risks. Regarding the role of political system factors on foreign direct investment, it is generally believed that the political risk of the host country has a significant negative correlation with OFDI, while the relationship between other political factors such as the degree of government organization and OFDI has great uncertainty (Hu & Zhang 2021; Song & Wu, 2018; Yang et al., 2016; Jiang, 2015). The government largely affects the performance of the economy, but this does not mean that the degree of government organization and political risk are completely synonymous with institutional factors. Many studies simplify institutional factors into political factors such as domestic and foreign political relations, which is incomplete.

2). Economic institutions and OFDI: The government’s various orders, various rules and measures related to the economy promulgated by the government, and the direct control of the economy should be regarded as economic factors in the system, including trade policies, currency policy, property rights, government regulation, business license, labor environment regulation, etc. Wang et al. (2018) added the consideration of the market system to the political system, and believed that when the two institutional factors are good, low-cost labor and natural resources will promote OFDI. Chen et al. (2017) pointed out that the free and open economic and trade system is an important factor in promoting the economic growth of China and regional countries through the construction of economic growth models of all countries and countries along the “Belt and Road”.

3). Cultural institutions and OFDI: Informal institutions such as social identity, values, customs, and morals should be regarded as another important institutional dimension—cultural factors. A common practice is to incorporate *cultural distance* variables. Although there is a consensus on the view that cultural distance will generally inhibit foreign direct investment, there are still some differences in the degree and scope of influence. Li et al. (2020) considered the intersection and potential conflicts of different civilizations in the “Belt and Road” while examining institutional distance, and found that the inhibitory effect of cultural distance is more

obvious than that of institutional differences. There are also studies that examine six different cultural dimensions in detail (Liu & Yang, 2016).

4). Bilateral institutional factors and OFDI: It is also necessary to consider the relationship between countries and between different institutional subjects. In this study, it refers to the direct institutional coordination on FDI between the two governments, namely the Bilateral Investment Treaty (BIT). It is generally believed that BIT can promote direct investment. For example, Deng and Xu (2015) found that the signing of BIT will significantly promote foreign direct investment of Chinese enterprises, and there is a threshold value for the quality of the political system; Yang et al. (2016) found that the impact of BIT on foreign direct investment is different by countries.

3. Estimate Strategy and Data

3.1 Estimate Strategy

In order to comprehensively examine the impact of institutional factors on China's OFDI, this paper constructs an indicator system that includes four dimensions: politics, economy, culture, and bilateral relations, so as to fully reflect a country's institutional characteristics:

$$LnOFDI_{i,t} = \alpha_0 + \alpha_1 WGI_{i,t} + \alpha_2 EFI_{i,t} + \alpha_3 CD_{i,t} + \alpha_4 BIT_{i,t} + \alpha_5 control_{i,t} + \eta_i + \varepsilon_{i,t} \quad (1)$$

In the model (1), the dependent variable is the stock of China's foreign direct investment in country i in year t (after logarithmization).

Political institutional factor $WGI_{i,t}$: using the World Bank's global governance indicators. It's the proxy variable of the political institutional factors calculated by the arithmetic mean of *Voice and Accountability, Political Stability and Nonviolence, Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law,* and *Control of Corruption*.

Economic institutional factor $EFI_{i,t}$: the Index of Economic Freedom is used as the proxy variable of economic institutional factors. The value range of this variable is (0, 100). The smaller the value, the smaller the constraints on the economic development and the higher the degree of economic freedom.

Cultural factor $CD_{i,t}$: Geert Hofsted's cultural dimension theory divides a country's cultural characteristics into *Power Distance*, *Uncertainty Avoidance*, *Individualism versus Collectivism*, *Masculinity versus Femininity*, *Long-term versus Short-term* and *Indulgence versus Restraint*. It systematically measures the cultural differences between different countries and is adopted by most relevant studies. Based on the above six dimensions, this paper uses the following formula to calculate the cultural distance between the two countries:

$$CultureDistance_i = \frac{1}{6}\sum_{i=1}^{6}\frac{(I_{China,i} - I_{i,j})^2}{V_i} \quad (2)$$

$I_{China,i}$ represents the score of China on the cultural dimension i, $I_{i,j}$ represents the score of the country j on the dimension i; V_i represents the variance of all countries on the dimension i. Given the panel data model, and that as the time for the establishment of diplomatic relations between the two countries is increasing and the bilateral relationship is getting closer, frequent bilateral exchanges will offset cultural differences and shorten the cultural distance, we refer to the approach of Qi et al. (2012), and add the reciprocal of the time$n_{i,t}$ of the establishment of diplomatic relations between country i and China after the cultural distance, namely:

$$CD_{i,t} = CultureDistance_i + \frac{1}{n_{i,t}} \quad (3)$$

Bilateral institutional factor $BIT_{i,t}$: We use the effective time of the BIT signed between China and country i as a variable to measure the bilateral institutional relationship factors directly related to direct investment. Therefore, the higher the variable value, the closer the bilateral institutional relationship and the closer the institutional cooperation in direct investment. For countries that have not signed a BIT with China, and for the years before the treaty entered into force, the variable takes the value 0.

$control_{i,t}$ is the control variable, including: (1) Geographical distance (*lndist*), the product of the distance between the capital of a country and Beijing (the capital of China), and the international oil price of the year, and take the logarithm to measure the distance cost between the two countries; (2) Gross domestic product (*gdp*) (constant US dollars in 2010), which measures the market size of the investment target country; (3) Gross domestic product per capita (*gdppc*) (constant US dollars in 2010), which indicates the per capita income level of a country and measures the market potential of the investment target country; (4) The proportion of energy and fuel exports in total merchandise exports (*fuel*), which measures a country's natural resource endowment; (5) The number of mobile phone subscribers per 100 people (*cel*), as a proxy variable for infrastructure; (6) The

number of domestic labor force (*pop*), which measures the labor endowment of a country; (7) The normalized trade scale (*tr*), which reflects the development of the country in terms of trade.

3.2 Data

This paper selects 150 countries and regions that are the destination countries of China's foreign direct investment as the research object. Taking into account the availability of data, countries with serious data loss and distortion, as well as recognized tax havens such as Hong Kong and the Cayman Islands, we finally formed a penal data of 132 samples, including 73 "Belt and Road" countries[1]. Since the earliest data available is 2003, and in order to exclude the destabilizing impact of the new crown epidemic on the world economy in 2020, the time span is selected as 2003-2019.

For the extremely rare 0 value of *OFDI*, in order to make it easy to logarithmize, it is assigned a value of 1. For the missing value of cultural distance (CD), the calculation method is the average of the cultural distance of all neighboring countries to China plus the reciprocal of the time when the country established diplomatic relations with China. For the missing and missing values of other data, the average value is used instead.

The scale of China's foreign direct investment is compiled from the Ministry of Commerce's "Statistical Bulletin on China's Foreign Direct Investment" over the years; the quality of political institutions comes from the World Bank's World Governance Index database; the index of economic freedom and indexed trade scale come from the American tradition the Heritage Foundation; the cultural dimension data comes from Geert Hofsted's personal webpage; the data on the signing of the bilateral investment agreement and the time of the establishment of diplomatic relations between the two countries are compiled from the Ministry of Foreign Affairs; the distance between the capitals of the two countries comes from CEPII; CEPII; international oil price data is Brent crude oil price, derived from EPS; GDP, GDP per capita, energy and fuel exports as a percentage of total merchandise exports, number of mobile phone subscriptions per 100 people, and labor force are from the world The Bank's World Development Index database. Table 1 presents the descriptive statistics of each variable in the sample countries.

Table 1. Descriptive statistics of variables

variables	**obs**	**mean**	**standard**	**min**	**max**
LnOFDI	2244	9.187	2.718	0.693	15.867
WGI	2244	0.049	0.886	-1.752	1.970
EFI	2244	61.405	10.023	21.400	89.400
CD	2244	3.578	1.910	0.570	7.793
BIT	2244	11.868	9.749	0	37
Lndist	2244	13.276	12.697	10.298	14.473
gdp	2244	4.331	15.943	0.060	199.745
gdppc	2244	14.526	18.892	0.258	105.454
cel	2244	88.850	44.615	0.071	212.639
pop	2244	39.818	116.502	0.086	1366.418
fuel	2244	18.399	27.011	0	98.400
tr	2244	74.182	12.072	1	94.800

4. Results

4.1 Full Sample Regression

Table 2 shows the full sample regression results processed by the mixed OLS method and the fixed effect method according to formula (2). Pooled OLS assumes the same slope and intercept terms, and the fixed effect takes individual differences into account, so we use the fixed effect method dealing with the subsequent regressions. Gradually adding control variables to regression, the significance and sign of the coefficients have not changed significantly, and the measurement results can be considered to be relatively robust.

Table 2. Results of full sample regression

	Fixed effect	Pooled OLS

	(1)	(2)	(3)	(4)	(5)	(6)
WGI	0.7126***	0.8567***	0.3639*	0.3996*	0.4513**	-0.6626***
	(0.2319)	(0.2232)	(0.2111)	(0.2117)	(0 .2112)	(0.1799)
EFI	-0.0285***	-0.0339***	-0.0412***	-0.0418***	-0.0535***	-0.0386***
	(0.0102)	(0 .0098)	(0.0092)	(0.0092)	(0.0096)	(0.0095)
CD	-37.1181***	-28.9212***	-13.3179***	-13.3295***	-13.0806***	0.2569***
	(3.4274)	(3.3701)	(3.3263)	(3.3241)	(3.3109)	(0.0830)
BIT	0 .3014***	0.2880***	0.2132***	0.2136***	0.2102***	0.2022***
	(0 .0082)	(0.0082)	(0.0088)	(0.0088)	(0.0088)	(0.0080)
Lndist		0.8806***	0.4447***	0.4110***	0.3483***	0.3618***
		(0.0792)	(0.0787)	(0.0804)	(0.0814)	(0.0815)
gdp		0.1077***	0.0443**	0.0434**	0.0464**	0.0459***
		(0.0179)	(0.0188)	(0 .0188)	(0.0186)	(0.0094)
gdppc		0.0424***	0.0713***	0.0702***	0.0678***	0.0120
		(0.0153)	(0.0145)	(0.0146)	(0 .0145)	(0.0092)
cel			0.0188***	0.0188***	0.0178***	0.0214***
			(0.0012)	(0.0012)	(0.0012)	(0 .0011)
pop			0.0134***	0.0134***	0.0106***	0.0056***
			(0.0036)	(0.0036)	(0 .0036)	(0 .0013)
fuel				0.0086**	0 .0093*	0.0037***
				(0.0044)	(0 .0044)	(0.0037)
tr					0 .0191***	0.0184***
					(0 .0045)	(0 .0045)
_cons	140.1472***	98.6751***	47.5712***	47.9388***	47.4194***	-0.4070
	(140.1472)	(12.3564)	(12.0694)	(12.0626)	(12.0136)	(1.1820)
R^2	0.5850	0.6180	0.6651	0.6657	0.6686	0.6559
obs	2244	2244	2244	2244	2244	2244

Note: (1) *, **, *** represent that the results are significant at the 10%, 5% and 1% levels respectively, and the values in brackets are standard errors. (2) The following table is the same and will not be described again.

The full-sample regression results show that the four institutional factors generally have a significant impact on China's foreign direct investment. Among them, the coefficient of the political institution is significantly positive, indicating that it has a significant positive effect on China's foreign direct investment. The better the quality of the host country's political system, the more the OFDI. The coefficient of economic institution is significantly negative, indicating that the higher the economic freedom of the economy, the more it can promote China's foreign direct investment. The more perfect the host country's market mechanism/ the more mature the government's economic policy/ the lower the degree of intervention in economic behavior, the more attractive it is to China's foreign direct investment. The coefficient of cultural distance is also significantly negative, indicating that the greater the cultural gap between the host country and China, the more obvious the hindrance to China's foreign direct investment. The conclusion and continuous implementation of the bilateral investment agreement has indeed had a positive impact on China's foreign direct investment. Sufficient institutional coordination and information exchange between the two countries in direct investment can greatly enhance investment behavior.

In addition, market size, market potential, labor endowment, infrastructure coverage and resource status all have a significant positive impact on foreign direct investment of China, and Chinese enterprises' OFDI still has strong market-seeking, efficiency-seeking and resource-seeking motivations.

4.2 Regression Under the "Belt and Road" Countries and Discussion on "Institutional Distance"

In Table 3, columns (7) and (8) show the regression results of B&R countries and non-B&R countries

respectively. The direction and significance of economic institutional factors, cultural factors and bilateral institutional factors on China's OFDI remain unchanged and have a relatively stable impact. However, the coefficient of economic freedom has decreased, and the coefficient of bilateral investment agreements is higher than that of non- "Belt and Road" countries. It may be mainly because the countries along the "Belt and Road" are mostly developing economies, and the degree of economic policy freedom and openness is generally not as good as other countries. China's investment in these regions is more driven by good traditional relations. The influence of cultural distance on OFDI has increased, indicating that the "Belt and Road" connects five continents and communicates with different civilizations, especially connecting countries with large cultural distances such as Africa and South America, and cultural differences between countries are reflected stronger.

Table 3. Results of regressions under the "Belt and Road" countries and *Institutional Distance*

	(7)	(8)	(9)	(10)	(11)
WGI	-0.0099	1.2218***			
	(0.2563)	(0.3465)			
WGIdist			-0.6959***	-0.7856**	-0.7746***
			(0.2477)	(0.3504)	(0.2085)
EFI	-0.0442***	-0.0502***	-0.0474***	-0.0389***	-0.0507***
	(0.0123)	(0 .0149)	(0.0113)	(0.0143)	(0.0089)
CD	-47.2429***	-0.2629	-47.7960***	-0.5444	-13.6331***
	(5.9833)	(4.1720)	(5.9064)	(4.1880)	(3.2988)
BIT	0 .2042***	0.1962***	0.2008***	0.1955***	0.2062***
	(0.0119)	(0.0134)	(0.0116)	(0.0134)	(0.0087)
control	YES	YES	YES	YES	YES
_cons	154.4708***	-5.6675***	156.5932***	-4.2072***	49.7833***
	(19.4773)	(17.1166)	(19.2580)	(17.1877)	(11.9795)
R^2	0.7339	0.6240	0.7357	0.6657	0.6701
obs	1241	1003	1241	1003	2244

The influence of political institutional factors on countries along the "Belt and Road" is not significant. Some studies have pointed out that in terms of political systems, institutional differences between the two countries have a greater impact on the selection and distribution of foreign direct investment than institutional quality (Tian et al., 2018). China's domestic system is relatively unique. When making foreign investment decisions, Chinese companies make more comparisons with the various environments they face at home. For countries with small institutional differences, enterprises are more familiar with the local environment, have more accurate and stable expectations of development prospects and profit risks, and invest more directly. For countries with large institutional differences, the uncertainty is stronger, and direct investment. The investment is even less. In the existing research, it has become more and more practice to replace absolute institutional quality with institutional differences, such as Liu and Yang (2016). They constructed an index of institutional environment differences in the host country, and empirically found that institutional differences in the rule of law and governance have a significant negative impact on China's OFDI, which is alleviated by friendly bilateral relations. Based on the above analysis, we introduce a new explanatory variable: the political system distance between the host country i and China in year t ($WGIdist_{i,t}$), the calculation method is:

$$WGIdist_{i,t} = |WGI_{i,t} - WGI_{China,t}| \tag{4}$$

$$LnOFDI_{i,t} = \alpha_0 + \alpha_1 WGIdist_{i,t} + \alpha_2 EFI_{i,t} + \alpha_3 CD_{i,t} + \alpha_4 BIT_{i,t} + \alpha_5 control_{i,t} + \eta_i + \varepsilon_{i,t} \tag{5}$$

$WGI_{China,t}$ is the political institutional quality of China in year t. Introduce $WGIdist_{i,t}$ instead of $WGI_{i,t}$ into model (2) to obtain formula (5). The regression results are shown in columns (9) to (11) of Table 3. The coefficients of *WGIdist* are all significantly negative, which shows that the smaller the institutional distance, the more China's OFDI in the host country. Therefore, the "political system distance theory" can provide a reasonable explanation

and theoretical improvement for the insignificance of political institutional quality in countries along the "Belt and Road". The regression results for other variables are not significantly different, verifying the robustness of the total effect.

4.3 Sub-Sample Regression—By Income Level

Table 4 shows the regression results classified by income of countries by the standard of World Bank. Political institution distance has a significant negative effect in upper-middle-income countries, but for low-income and high-income countries, it's not that important. The reason for the insignificant data may be that the quality of political systems in low-income and low-middle-income countries is generally low, and Chinese enterprises, especially state-owned enterprises, rely more on their own unique advantages to enter the local market. The high-income countries along the "Belt and Road" are not Western European countries with high-quality political institutions, but countries that rely on energy development and exports as their main source of income, such as the United Arab Emirates and Brunei. The quality of political institutions in these countries is broadly similar to that of low- and middle-income countries.

The quality of economic institutions works in the same direction as expected, and has a significant promotion effect in low-income and lower-middle-income countries, but not in high-income and upper-middle-income countries. It may be because countries and regions with higher levels of economic development generally have a higher degree of economic freedom, and the degree of economic freedom and openness is no longer a differentiating factor for companies to choose to enter the markets of these countries. The large coefficient also confirms this idea.

Cultural distance has a significant negative effect on all types of countries, especially in low-income countries, probably because of the huge cultural diversity in low- and middle-income countries.

The coefficient of bilateral investment agreements in low-income countries is negative, because the sample of low-income countries is small, and only one country (Madagascar) has signed a bilateral investment agreement with China, so the inferred results may be biased.

Table 4. Results of regressions by income level

	(12) low	(13) lower-middle	(14) upper-middle	(15) high
WGIdist	1.2612	-0.1714	-2.1684***	0.3769
	(1.2505)	(0.2538)	(0. 4727)	(0.3504)
EFI	-0.1013***	-0.0457***	-0.0122	-0.0313
	(0.0316)	(0 .0139)	(0.0200)	(0.0234)
CD	-220.9612**	-21.6371***	-78.8661***	-48.0794***
	(90.6388)	(7.3188)	(9.8637)	(10.1317)
BIT	-0 .1786***	0.0431***	0.2300***	0.2777***
	(0.0559)	(0.0157)	(0.0291)	(0.0217)
Lndist	0.8219***	0.4651***	0.5625***	-0.1920
	(0.2336)	(0.1031)	(0.2034)	(0.1816)
control	YES	YES	YES	YES
_cons	1041.348**	71.2947***	231.1671***	142.5031***
	(431.1567)	(25.1210)	(29.6543)	(29.6378)
R^2	0.8922	0.8718	0.8275	0.7563
obs	102	425	255	459

4.4 Sub-Sample Regression—By Areas

The results are shown in Table 5. For the "Belt and Road" countries, the effect of political institution distance on China's foreign direct investment is not significant in the Asia-Pacific region. This may be because countries in the Asia-Pacific region, especially Southeast Asian countries, have traditional friendly relations with China, are geographically close, and have close economic cooperation. They are the earliest and largest regions of China's foreign direct investment, and they have become the first choice for diverting China's domestic excess resources and production capacity (Wang, 2018). Enterprises entering these countries rely more on "intangible advantages"

such as long-term accumulated investment experience, social networks and friendly relations, and do not pay too much attention to the quality of political systems or distance. The coefficient of political system distance in African countries is positive, which also confirms the views of "relying on one's own non-market advantages to enter the local market" and "home country government support".

The impact of economic freedom on countries in different regions is generally negative, in line with expectations, but it is not obvious in the Asia-Pacific region, the Middle East and Central Asia; The effect of cultural distance in Europe is not significant, probably because the level of development between China and Central and Eastern European countries is similar, thus making up for the effect of cultural differences; Bilateral investment agreements have a positive and stable impact on countries in the four types of regions, which shows that the coordination of investment systems between China and other countries has achieved very good results.

Table 5. Results of regressions by areas

	(16) Asia-Pacific	(17) Middle East and Central Asia	(18) Africa	(19) Europe
WGIdist	0.3728	-1.1614**	1.1347**	-2.0889***
	(0.3730)	(0.5020)	(0. 5499)	(0.4603)
EFI	-0.0051	-0.0190	-0.0816***	-0.0701***
	(0.0211)	(0 .0208)	(0.0227)	(0.0234)
CD	-118.4678***	-77.8218***	-161.9039***	9.3470
	(10.9595)	(11.7163)	(29.5617)	(9.2936)
BIT	0 .1212***	0.0811**	0.0543**	0.3370***
	(0.0211)	(0.0346)	(0.0267)	(0.0192)
control	0.2754*	0.4957**	0.1068	0.0057
_cons	153.8906***	242.2545***	819.8441***	-15.0866
	(14.6226)	(37.1421)	(148.6198)	(28.2539)
R^2	0.8676	0.8066	0.7411	0.8261
obs	272	289	357	323

5. Conclusion

This paper analyzes the influence of institutional factors on China's foreign direct investment in the full sample countries and countries along the "Belt and Road", by merging multiple data sets such as the World Bank's World Governance Indicators and World Development Indicators, using 132 countries from 2003 to 2019 as samples and the fixed-effects model to analyze. The research finds that the system is an important factor affecting China's OFDI. The quality of political system, the quality of economic system and bilateral investment treaties have a significant positive correlation with OFDI, while cultural distance has a negative correlation. Within the scope of the "Belt and Road" countries, the quality of the political institution has no significant impact, the impact of the economic system has weakened, and the impact of cultural distance and bilateral investment agreements has increased. "Institutional distance theory" can provide a reasonable explanation and theoretical improvement for the insignificant political system quality of countries along the "Belt and Road". Moreover, there is heterogeneity in the influence of institutional factors on China's foreign direct investment in countries along the route.

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[1] The list of Belt and Road countries is as follows. "Silk Road" countries: Austria, Bulgaria, Belarus, Czech Republic, Spain, Finland, Georgia, Greece, Croatia, Hungary, Iran, Israel, Italy, Jordan, Kazakhstan, Turkmenistan, Kyrgyzstan, Tajikistan, Uzbekistan, Lebanon, Nepal, Pakistan, Poland, Romania, Russia, Saudi Arabia, Serbia, Slovenia, Slovakia, Turkey. "Maritime Silk Road" countries: Vietnam, Cambodia, Laos, Myanmar, Thailand, Philippines, Brunei, Malaysia, Singapore, Indonesia, India, Bangladesh, Côte d'Ivoire, Cyprus, Malta, Bahrain, Qatar, United Arab Emirates, Oman, Côte d'Ivoire, Djibouti, Egypt, Ethiopia, Kuwait, Kenya, Tanzania, Uganda, Zimbabwe, Madagascar, Seychelles, Mauritius, Mauritania, Niger, Nigeria, Gabon, Ghana, Sierra Leone, Congo (Kinshasa), Congo (Brazzaville), New Zealand, Chile, Uruguay, Trinidad and Tobago.