

Political Differences and the Chinese Foreign Direct Investment Risk--- Empirical Test from Some Countries along “the Belt and Road”

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Abstract. Objective: The purpose of this paper is to point out that there is a certain risk for China when investing to the countries along the Belt and Road, and mainly examined the impact of the political differences from investment object countries on China's foreign direct investment risk. Method: first, this paper puts forward the theoretical hypothesis, and then simulates the study of John and others in 2008, constructs a national risk model to verify the theoretical hypothesis. Finally, making use of the 2005-2014 five countries' foreign direct investment data along "China's Belt and Road", and an empirical analysis of the influence of political differences from investment object countries on China's foreign direct investment risk with SPSS software regression analysis. Results: according to the results of regression analysis, the coefficients of the three variables are -0.345, -3.212, - 8.402, which showed the same results. Generally speaking, the higher the political quality is, the lower the risk of China's foreign direct investment will be. The limitation of this paper is not to make full use of all countries data along “the Belt and Road” and the representative of the research results need further verification. Conclusion: Investment target country's political more stable, higher government efficiency and better control of corruption, the lower the risk of China's foreign direct investment. The results provide the theoretical guidance for the political risk in the country's direct investment along “China's Belt and Road”.

Introduction

"The Belt and Road" strategy refers to "promoting “the Silk Road Economic Belt” and “21st-Century maritime Silk Road” strategy, and is a major strategic initiatives proposed in the key period of reform and transition in China [1]. “The Belt and Road Initiative” provides a historic chance to speed up the pace of structural adjustment of domestic economy of China, to achieve New Normal for economic development, to promote the diversification of foreign trade and economic cooperation, to improve the overall level of openness and level. Admittedly, foreign direct investment is a key link in Chinese and the country's economic cooperation along “the Belt and Road”, Therefore, the scale of China's direct investment in these countries will significantly increase in the future. But on the other hand, China's foreign direct investment is inexperienced and no strong external risk aversion. Especially the huge difference of political background between the countries along “the Belt and Road” and our country, which makes our country inevitably produced a huge loss in promoting the “the Belt and Road” strategy. To reduce the investment risk, improve the efficiency and return on China's foreign investment, promote stability and sustainable progress for “China's Belt and one Road” strategy, this paper will analyze in depth the relationship between political differences the countries along “the Belt and Road” and our country's foreign direct investment, and will help increase our investment efficiency for the countries along “the Belt and Road” from theoretical and practical perspective.

Literature Review

The premise of implementing effective risk prevention measures is risk identification, and the category of risk plays a decisive role in the identification of risk. By reading the literature, the

author found that scholars all over the world about foreign direct investment risk classification standards have not reached a consensus, and some scholars have carried out different types of risk basing on the content of risk control, risk influence as well as the sources of risk and other aspects of different types of risk division. With the development of the theory and practice of foreign direct investment, the scholars engaged in risk classification will combine qualitative and quantitative analysis to more accurately measure the impact of risk factors, which bring positive significance for scientific risk prevention measures. Foreign scholar Miller (1996) proposed a highly summarized and more perfect model of foreign direct investment risk perception. Thirty-five influence factors, including policy, economy, resource, service, market, competition, technology and other content are selected, and the risk of investment management environment is perceived [2]. Domestic representative scholar Yugong Shao (2008) constructed a relatively complete system of risk assessment, from subjective to objective, from outside to inside, from primary to secondary, chose a plurality of sub project from all sides and used multilevel fuzzy comprehensive evaluation method to carry on the analysis [3].

In addition, through the review of literature, the author found the risk that China invests to the countries along "the Belt and Road" being mainly manifested in five aspects, including political, economic, legal environment, social, security and culture. The definition of political risk by Butler and Joaquin (1998) think the host government in commercial operation in the non-expected to change the rules of the game, and harm the interests of investors or equity possibility. Because of its unique characteristics, political risk affects the other risk in a certain extent, and it is the biggest and most unpredictable risks in the field of investment [4]. Economic risk refers to when the enterprise economic activity held in the host country, the host country macroeconomic fluctuation, the changes of economic policy and other factors will lead to income uncertainty of foreign direct investors of future profit. Legal environmental risk mainly refers to a non-commercial risk caused by international investors when they do not comply with the investment destination's law and legal system or change the legal institutions frequently. Cultural risk refers to people's consumption patterns, desire of conditions, the values of life and work effort and other aspects influenced by the different cultural backgrounds, so direct investment to foreign countries also become uncertainty. China's background is the Oriental Confucian culture, and pays attention to emotion, while the west is rational. Security risks are international terrorism, religious extremism and national separatism in the formation of the "three forces" [5] and transnational crimes, typified by pirates and drug smugglers, wars, armed conflicts, social unrest, ethnic and religious conflict, and these risks should be considered when China investing to foreign.

Comprehensive review of the literature, there are closely relationship between investment destination's political differences and "China's Belt and Road" direct investment, but there is little research on the concrete manifestation of this relationship. Therefore, Under the background of China vigorously promoting "the Belt and Road" strategy, the paper selects three political differences, respectively political stability, government efficiency and corruption control, studies the effect of political differences in part of countries along "the Belt and Road" on Chinese direct investment risk.

Theoretical Hypothesis

Enhance the Political Stability of Investment Destination. First, the political stability of investment destination is one of major factors in generating political risks, and it contains the stability of the regime, internal and external conflicts, terrorist attacks and so on. There are frequent changes of regime and instability in the political situation of investment destination, which do not provide an effective protection for property rights. In addition, the absence of foreign investment policy will damage the interests of investors. It not only increased the risk of future investing return, but pose a threat to the property rights of investors, for example, the Chinese enterprises suffered huge economic losses when the Al - qaddafi regime was overthrown in Libya. Moreover, with the investment destination's political instability becoming more intense, the more incentive the authorities have to take an opportunistic default at a lower cost, even illegal occupation, deprivation

and transfer of foreign assets and earnings (Holburn and Zelner, 2010) [6]. Based on this, the following assumptions:

Hypothesis 1: The higher the political stability is, the lower the risk of China's foreign direct investment will be.

Improve the Government Efficiency of Investment Destination. Government service is the public goods. High quality public goods undoubtedly create a transparent, dynamic and efficient cooperation environment for international cooperation. In general, the higher the government efficiency is, the higher the quality of public goods and services (such as transport, communications and other public goods) will be. The higher the efficiency of the government, the greater effect of China's direct investment. So it can save the cost of investment, at the same time, carrying out “the Belt and Road” strategy more efficient. Therefore, we put forward the following hypothesis:

Hypothesis 2: The higher the government efficiency is, the lower the risk of China's foreign direct investment will be.

Strengthen the Control of Corruption of Investment Destination. Corruption increased the uncertainty of the international investing environment, increased investing costs and barriers to entry, distorted market incentives, and made the entire business environment innovation. So corruption hinders the formation and development of a fair and efficient market (Boatright) [7]. A corrupt economy cannot provide a fair platform of international business, and the overall product quality of the economy is poor because of the lack of innovation. In this context, the strategy of “the Belt and Road” can't achieve the desired results. So we put forward the following hypothesis:

Hypothesis 3: The better the control of corruption is, the lower the risk of China's foreign direct investment will be.

Model Setting and Variables, Data Description

Model Setting. Based on previous research on enterprise risk (John, 2008) [8], the following model is established to verify the theoretical assumptions of this paper [9].

$$risk = \alpha + \beta_1 hgdg + \beta_2 hpgdp + \beta_3 gpgdp + \beta_4 growth + \beta_5 policy + \eta + \xi \quad (1)$$

Where risk is China's investment risks; hgdg, China's GDP ; hpgdp, China's GDP per capita, GDP and GDP per capita refer to the country or region's market size and opportunity (Eaton and Tamura, 1994) [10]; gpgdp, GDP per capita of investment destination; growth, growth rate of GDP of investment destination, it represents the local market potential (Lipsey, 1999), in order to control the impact on China's foreign investment risk from the object market opportunities and market potential by join GDP per capita and GDP growth rate of object country; policy, the key test variable, according to above theoretical hypothesis, it refers to the political factors among the investment destination along “the Belt and Road Initiative”, which including political stability, government efficiency and control of corruption; η , fixed effects in the investment destination; ξ , error term, assuming $E(\xi) = 0$.

Describe the Variables and Data. China's foreign direct investment risk was measured by net investment of natural logarithm over the years from parts of country along “the Belt and Road”, the data comes from the statistical yearbook of the Ministry of Commerce and is obtained in China from 2005 to 2014 for the five country's net foreign direct investment along “the Belt and Road”; Political data comes from the World Governance Indicators (WGI) database; China's GDP and GDP per capita data are from the National Research Network database; GDP and GDP per capita growth rate data of investment destination come from the database of national accounts in the United Nations; And national characteristic variables are obtained after the removal of the natural logarithm. In this paper, the SPSS software was used to analyze the variables by descriptive statistics and regression analysis. The statistical description of each variable is shown in Table 1.

Table 1 Descriptive Statistics

Variables	Description of variables	N	Mean	Std. Deviation	Minimum	Maximum
risk	China's investment risks	50	10.196	1.467	6.168	12.697
hgdp	China's GDP	50	10.634	0.904	8.373	11.505
hpgdp	China's GDP per capita	50	8.284	0.488	7.457	8.935
gpgdp	Investment destination's GDP per capita	50	8.477	1.34	5.037	10.938
growth	Investment destination's GDP per capita	50	4.552	3.303	-5.100	14.800
ps	Political stability,	50	0.705	0.199	0.310	1.000
gef	Government efficiency	50	0.895	0.813	0.440	4.810
cc	Corruption control	50	0.603	0.307	0.170	1.000

Empirical Test

According to the model, this paper used SPSS software to the variables getting from the five countries (Singapore, Indonesia, Vietnam, Germany and Thailand) along “the Belt and Road” for regression analysis (Table 2). It was found that the investment destination's political stability coefficient is negative, indicating that the higher the investment destination's political stability, the lower China's foreign direct investment risk, which is consistent with the theoretical hypothesis 1. Investment destination's government efficiency coefficient is significantly negative, and it shows that the investment destination's government efficiency is higher, lower risk of China's foreign direct investment, which is consistent with the theoretical hypothesis 2. Control of corruption coefficient of investment destination is significantly negative, and it shows that the destination's control of corruption is better, the smaller risk of China's foreign direct investment, which is consistent with the theoretical hypothesis 3.

Through the test, we found that investment destination's political differences have significant influence on China's foreign direct investment risk, that is to say, the higher the investment destination's political quality, the smaller China's foreign direct investment risk will be, which is consistent with all theoretical hypothesis. Although the significance of political stability was slightly lower, it still showed a negative correlation. Limitation of this paper lies in the lack of sufficient data and the influence of individual factors.

Table 2 Regression analysis

Variable	B	Std. Error	Beta	t
(Constant)	-69.412	106.843		-0.65
hgdp	0.784	0.73	0.448	1.075
hpgdp	-7.967	13.692	-2.462	-0.582
gpgdp	17.077	25.21	2.582	0.677
growth	0.082	0.228	0.152	0.361
ps	-0.345	26.288	-0.011	-0.013
gef	-3.212	25.805	-0.147	-0.124
cc	-8.402	10.164	-0.678	-0.827

Dependent Variable: risk

Summary

This paper empirically studies the impact of political differences on China's foreign direct investment risk by the data obtained in China from 2005 to 2014 for the five country's net foreign direct investment along "the Belt and Road". First, the possible mechanism of the impact of political differences on China's foreign direct investment risk was analyzed theoretically, and put forward the related hypothesis. Then the paper carried on the empirical test. Conclusions are as follows: First, investment destination's political factors have significant influence on China's foreign direct investment risk; second, the more stable politics, the higher the government efficiency and the better control of corruption are, the lower China's foreign direct investment risk will be.

The research results will be conducive to a deeper understanding of the political risks faced by China when promoting the "the Belt and Road" strategy. It also further remind China should be to assess the investing risk before investing in the country along "the Belt and Road", especially political risk. Then it is necessary that take appropriate measures to avoid risks as far as possible and improve investment returns and efficiency.

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