

An Empirical Analysis of the Institutional Factors' Affection on China's Foreign Direct Investment

—Based on the Perspective of Investment Motives

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Received 31 December 2015; accepted 18 February 2016; published 24 February 2016

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Abstract

With the rapid development of economy, China, as a country which attracts lots of multinational companies investing in and reaping their benefits, now plays an increasing important role as a source of investment all around the world. And more and more Chinese enterprises try their best to expend overseas market. In this paper, based on the perspective of investment motives, I use fixed effect model to study the influence of domestic and the host country institutional factors on outward foreign direct investment (OFDI) with the panel data from 58 Chinese OFDI destinations during 2003-2012. The results show that it's the domestic institutional factors not the host country's that play a major role in OFDI, especially property rights in legal field and investment freedom and business freedom in economic field which all have negative effects on OFDI, fiscal freedom and monetary freedom in economic field which all have positive roles.

Keywords

OFDI, Institutional Factors, Investment Motives

1. Introduction

Recently, China's Outward Foreign Direct Investment (OFDI) develops rapidly. "2014 World Investment Report" issued by United Nations Conference on Trade and Development (UNCTAD) shows that the global Foreign Direct Investment (FDI) flows in 2013 had achieved 1.41 trillion and the stock was 26.31 trillion. Respectively, China's OFDI accounted for 7.6%, which ranked the third in flow and 2.5% which ranked the 11th in

stock [1]. As you know, under the guidance of the strategy of “going out” and policy stimulus, Chinese enterprises constantly pour into overseas markets to seek opportunities.

Figure 1 shows the flow of China’s OFDI since 2002.

Table 1 shows the property of the state-owned enterprises in the compositions of China’s OFDI enterprises and the share of the state-owned enterprises in China’s OFDI.

Considering the number, the flow of China’s OFDI presents a continuously increasing trend, especially in 2005, 2008, the growth over the past two years peaked. From 2002 to 2013, the average annual growth rate of China’s OFDI flow reached 39.8%.

As shown in the table and figure, in spite of the low property of the state-owned enterprises in the compositions of China’s OFDI enterprises, the share of the state-owned enterprises in China’s OFDI amounts more than a half.

Considering all factors: the slowdown of domestic economic, overcapacity problems, the establishment of China’s leading Asian Infrastructure Investment Bank and the implementation of the project “One Belt One Road”, more and more enterprises will go abroad to invest overseas and as the source of investment, China will play a more important role.

However, as the saying said “opportunities coexist with crisis”, especially in the context of global economic recovery, there are still large uncertainties in the course of China’s OFDI. Internally, our country faces with the slowdown of economic growth, the adjustment of economic structure, industrial upgrading, medium income trap and the disappearance of the demographic dividend and so on. Externally, it can be seen that there is a close relationship between China and other countries just as “a glory all glory, as soon as damaged all damaged”. So considering the turbulent international environment: the strong return of the dollar, the deflation crisis of the euro zone and the uncertainty of the Abenomics, there is a great challenge to invest abroad.

Through simple statistics of China’s OFDI data from 1990 to 2004, Buckley [2] thought the stock of direct investment in the developed countries was more than that in developing countries. And the geographical factors have little effect since the countries close to China can’t attract China to invest in. The author thinks that the main reason of this phenomenon is the degree of government involvement.

According to foreign investment motives, Kojima [3] considers that different countries can be divided into three types: market-seeking, resource-seeking, strategic asset-seeking. Buckley refers that China is favored by countries with rich natural resources, more advanced technology, more market potential, such as Australia, the United States, Canada.

In this context, based on the perspective of investment motivation, there is an important strategic significance to study the impact of institutional factors on China’s OFDI and summarize how to proceed from the system to serve the Chinese enterprises to go abroad from the perspective of investment motivation.

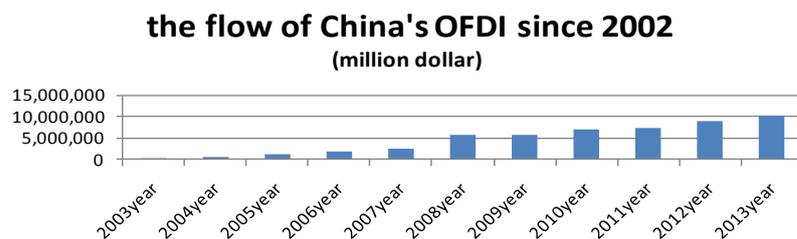


Figure 1. The flow and sequential growth trends of China’s OFDI since 2002. 2002-2005, the participants just include the non-financial industries; and 2006-2012 for all fields. Data source: China foreign direct investment statistics communique, 2013.

Table 1. The property of the state-owned enterprises in the compositions of China’s OFDI enterprises and the share of the state-owned enterprises in China’s OFDI.

Year	2006	2007	2008	2009	2010	2011	2012
The state-owned enterprises in the compositions of China’s OFDI enterprises (%)	26	19.70	16.10	13.40	10.20	11.10	9.10
The share of the state-owned enterprises in China’s OFDI amounts (%)	81	71	69.60	69.20	66.20	62.70	59.80

Data source: China foreign direct investment statistics communique, 2006-2012.

2. Literature Reviews

Invest Study of summary at this stage can be found that scholars' research develops from the following three main areas: the relationship between FDI and the international trade, analysis of the factors affecting FDI, the impact of foreign direct investment on the host country. This paper mainly studies the influence of institutional factors on the process of China's OFDI.

In prior period research, foreign scholars mainly discuss why the enterprises want to invest abroad. Vernon [4] divided the product's life cycle into three stages: the new product stage, the mature product stage and the standard product stage. In the mature and standard product phase, because of the saturation and increased competition in the domestic market, the enterprises survive to open up overseas markets. In late-stage study, scholars mainly focus on why the enterprises choose this country instead of other countries. Kojima pointed out that the reason why the investment location choice is different in different countries is the three kinds of motives: market-seeking, resource-seeking, strategic asset-seeking after comparing the FDI in Japan to that in the United States.

In recent years there are more and more arguments about Institutional factors into a flourishing state. Domestic scholars mainly focus on the system of the host country, which can be divided into the formal system and informal system to investigate its influence on China's OFDI. From the legal system, economic system, cultural factors to analyze three factors on China's foreign direct investment, Yi Lin [5] thinks China's OFDI is more sensitive to the legal system by application of stepwise regression analysis; some scholars have begun to shift their attention to China's domestic institutional factors. Based on the advantages of enterprise ownership advantage, internalization advantage, location advantage, firstly, Yu Qiuxuan [6] take the overall regression analysis of domestic institutional factors: the impact of the legal system and economic system on China's OFDI; then, through the East, Midwest classification regression analysis according to the geographical location of the 29 provinces (municipalities). Using gravity model, Xie Mengjun [7] observe and study the influence of institutional factors about our country and host country on China's OFDI. And he concludes that the improvement of the legal system of our country and the host country is beneficial to China's OFDI. What's more, the legal system of our country plays a greater role than that of the host country's legal system.

Through system combing all the existing literature, we find that there are many literatures about the host country's institutional factors on China's OFDI, and the study of our domestic institutional factors on China's OFDI is less. In existing research works, scholars mostly focus on the perspective of the province to consider it. Xie Hongliang [8] studies the influence of domestic institutional factors on China's OFDI on the perspective of the province; the discussion of domestic institutional factors variables is not as comprehensive and systematic as that of the host country. The host country's institutional factors have been studied from three aspects: the legal system, economic system, cultural system and two aspects of comprehensive investigation: and the formal system, informal system. Compared to it, the study of the domestic institutional factors is more fragmented. Xu Helian [9] only studies the influence of cultural factors on China's OFDI and investigates the other variables as control variables.

Taking the role of government in China's OFDI, in addition to the host country institutional factors, the introduction of the domestic institutional factors will be more comprehensive. Specific research ideas in the article are as follows: in the third part, the paper expounds the meaning of variable and its influence on China's OFDI; the fourth part introduces the model and data sources used in this paper; as the core of this paper, I quantify the institutional factors and empirically test it and discuss and analysis the results in the fifth part; Based on the previous theoretical and empirical analysis, I make comment for top-level design on the side of government and make policy recommendations to make it more quickly and steadily that the enterprises go out of the country.

3. The Proposing of Assumption and the Explanations of Variable

This article studies the impact of institutional factors on China's OFDI from two aspects of China's domestic and the host national institutional. The system is divided into formal and informal institutional factors. And the formal system can be segmented into legal and economic system which can be quantified into: Property Rights, Fiscal Freedom, Financial Freedom, Monetary Freedom, Trade Freedom, Investment Freedom, Freedom from Corruption, Business Freedom, Labor Freedom, Culture Distance.

The paper holds the following hypothesis.

3.1. Property Rights

It belongs to the legal system in the formal system, which measures the ability to accumulate private property and wealth. It's a central motivating force for workers and investors in a market economy. The recognition of private property rights, with sufficient rule of law to protect them, is a vital feature of a fully functioning market economy. Secure property rights give citizens the confidence to undertake entrepreneurial activity, save their income, and make long-term plans because they know that their income, savings, and property (both real and intellectual) are safe from unfair expropriation or theft. So, in this sense, the investors are more inclined to invest in countries with a sound legal system.

Taking the availability of data into account, the degree of protection of intellectual property rights is used to explain the perfection of the legal system of a country.

We assume that the better the protection of intellectual property rights in the host country is, the greater China's direct investment in the country will be. And the relationship of them is positive correlation for each other; similarly, the better the protection of intellectual property rights in our country is, the more Chinese enterprises prefer to invest at home instead of abroad. And they have direct negative correlation.

3.2. Fiscal Freedom

It belongs to the economic system in the formal system, which is a direct measure of the extent to which individuals and businesses are permitted by government to keep and control their income and wealth for their own benefit and use. The most can reflect the degree of freedom of a country's financial policy is the national tax rate. The higher the host government's cut, the lower the individual's reward—and the lower the incentive to undertake the work at all. Higher tax rates interfere with the ability of individuals and firms to pursue their goals in the marketplace and reduce, on average, their willingness to work or invest [10]. As far as our country is concerned, the relationship is not very clear: On the one hand, lower Chinese tax rate is, the larger corporate retained earnings is, the more capital out of the country, looking to overseas market is. But on the other hand, if our tax revenue is more advantageous than the host country, enterprises may be more inclined to stay in China, especially when Chinese market is vast and there is no excess capacity and lack of domestic consumption.

We assume that the degree of freedom of the host country's fiscal policy has a positive effect on China's OFDI and that of our own country's fiscal policy on China's OFDI is not very clear.

3.3. Financial Freedom

It belongs to the economic system in the formal system. A transparent and open financial system ensures fairness in access to financing and promotes entrepreneurship. An open banking environment encourages competition to provide the most efficient financial intermediation between households and firms and between investors and entrepreneurs.

We assume that the higher the degree of freedom of host country's financial market is, the greater China's OFDI will be. As the same as the freedom of our own country's fiscal policy, the relationship between the degree of freedom of our country's financial market and China's OFDI is not very clear.

3.4. Monetary Freedom

It belongs to the economic system in the formal system. Monetary freedom, reflected in a stable currency and market-determined prices, is to an economy what free speech is to democracy. With a monetary policy that endeavors to fight inflation, maintain price stability, and preserve the nation's wealth, people can rely on market prices for the foreseeable future. Investments, savings and other longer-term plans can be made more confidently [11].

We assume that the more freedom of the host country's monetary policy, the more Chinese enterprises tend to invest in the country. As far as our own country, the higher the degree of freedom of monetary policy, the more easily financing, the lower] financing cost, enterprises are more inclined to choose to get low-cost financing from their own countries to invest abroad. So the more freedom of our country's monetary policy is the more conducive to China's OFDI.

3.5. Trade Freedom

It belongs to the economic system in the formal system, which reflects an economy's openness to the import of

goods and services from around the world and the citizen's ability to interact freely as buyer or seller in the international marketplace. Trade restrictions can manifest themselves in the form of tariffs, export, taxes, trade quotas, or outright trade bans. In general, the more open a country's foreign trade is, the more attraction of other countries is to invest in them [12].

We assume that the more freedom of the host country's trade policy is, the more Chinese enterprises tend to invest in the country. And the impact of domestic trade policy on China's FDI may not be significant.

3.6. Investment Freedom

It belongs to the economic system in the formal system. A free and open investment environment provides maximum entrepreneurial opportunities and incentives for expanded economic activity, greater productivity, and job creation. An effective investment framework will be characterized by transparency and equity, supporting all types of firms rather than just large or strategically important companies, and will encourage rather than discourage innovation and competition.

We assume that the more freedom of the host country's investment policy is, the more Chinese enterprises tend to invest in the country. The more freedom of our country's investment policy is, the more Chinese enterprises tend to invest in China instead of overseas country.

3.7. Freedom from Corruption

It belongs to the economic system in the formal system. In the context of governance, it can be defined as the failure of integrity in the system, a distortion by which individuals are able to gain personally at the expense of the whole. Political corruption manifests itself in many forms such as bribery, extortion, nepotism, cronyism, patronage, embezzlement, and (most commonly) graft, whereby public officials steal or profit illegitimately from public funds. To a certain extent, if the enterprise and the government have a good relationship, the enterprise may be more likely to obtain economic benefits and invest in it. But on the other hand, a country's corruption is likely to hit the enthusiasm of enterprises and affect the sustained and healthy development of the country's economy [13].

Taking the existence of a certain degree of corruption in China into account, we assume that the relationship of freedom from corruption in our country and China's OFDI is not very clear and we need to be further explored.

3.8. Business Freedom

It belongs to the economic system in the formal system, which is about an individual right to establish and run an enterprise without interference from the state. Cumbersome procedures will inhibit corporate activity, on the contrary, transparent, free business environment will reduce the cost of business opportunities and companies tend to make long-term investment plans in the country [14].

We assume that the more freedom of the host country's business policy is, the more Chinese enterprises tend to invest in the country; the higher the degree of business freedom in China, the more enterprises prefer to invest in our own country, rather than foreign direct investment.

3.9. Labor Freedom

It belongs to the economic system in the formal system. The ability of individuals to work as much as they want and wherever they want is a key component of economic freedom. By the same token, the ability of businesses to contract freely for labor and dismiss redundant workers when they are no longer needed is a vital mechanism for enhancing productivity and sustaining overall economic growth. Government regulations take a variety of forms, including wage controls, hiring and firing restrictions, and other restrictions. In general, the higher the degree of freedom of a country's labor, the greater the individual selectivity and the higher the minimum wage are, the higher the cost of firing workers and the lower the unemployment rate in the country is.

In general, companies often choose to give priority to the low cost of labor and low cost of firing in the process of foreign direct investment. But taking that China has a labor advantage in the world into account, we assume this factor may hold little effect on China's OFDI.

3.10. Culture Distance

It belongs to the informal system, mainly to measure the level of cultural differences between China and the host country, like differences in language and living habits. Generally speaking, the smaller the cultural differences between the host country and our country, the higher the recognition and acceptance of each other, which will help reduce the invisible cost of enterprise investment.

So we assume that the smaller the distance between the host country and our country, the greater the direct investment of our country in it. They are negatively correlated.

4. Model Setting and Data Sources

4.1. Model Setting and Data Selection

Based on the above assumptions, the model is as follows:

$$\text{LOFDI}_{i,t} = \alpha + \beta * \text{CONTROL}_{i,t} + \theta * X_{i,t} + \varepsilon_{i,t}$$

4.1.1. Dependent Variable

$\text{OFDI}_{i,t}$: the flow of direct China's investment in the host country (i) in the year of i . Taking into account the large amount of foreign direct investment, while the independent variable data is small, I will Ln data to get the better regression effect.

4.1.2. Control Variable

Based on the motivation of China's OFDI, such as natural resource-seeking, market-seeking and strategic asset-seeking, $\text{CONTROL}_{i,t}$ includes GDP, technical preparation condition and natural resource endowment of the host country.

1) Broythors [15] concludes that host country market size will determine the way the enterprises invest in it. I use GDP of the host country to measure the host country's market size. The greater a country's GDP is, the greater the market share is, which attracts more investments. As the same as the dependent variable, I will Ln the GDP and the variable $\ln\text{GDP}$ will be substituted into the formula. Emerging market countries in foreign direct investment

2) Luo and Tung [16] think when invest abroad, the emerging countries will select some of higher human capital and intellectual capital of the country, which has advanced technology and innovative ability. Investment in these countries can make up for the disadvantage of enterprises. Here we measure the size of its strategic assets through technical readiness status in the host country. I rank the score from 1 to 7. The higher the score is, the more developed the country's technology is. I define this variable as TN.

3) In order to ensure the sustainable supplement of scarce resources, enterprises tend to invest directly in foreign countries with rich natural resources [17] [18] consider the enterprises seeking natural resource to invest abroad for the purpose of ore, nonferrous metals and other natural resources. So, the natural resource endowment of a host country is measured by the exports of minerals and metals to commodities. I define this variable as NR.

4.1.3. Independent Variable

According to the previous discussion, $X_{i,t}$ includes Property Rights, Fiscal Freedom, Financial Freedom, Monetary Freedom, Trade Freedom, Investment Freedom, Freedom from Corruption, Business Freedom, Labor Freedom, Culture Distance. In addition to Cultural Distance only contains a set of data, the other variables all include two sets of data, one our country's and the other the host country's.

1) Property Rights (PR)

The score is from 0 to 100. The higher the score is, the more perfect country's intellectual property rights in the judicial process are. What's more, high scores also means the illegal violation of private property will be strictly subject to legal sanctions and enterprises prefer to invest in this country. I define this variable as PR.

2) Fiscal Freedom (FS)

The score is from 0 to 100. The degree of the financial freedom is calculated according to individual income tax, corporate income tax and total tax burden accounted for GDP. The lower the score is, the greater the gov-

ernment's intervention in income is. As a result, enterprises in the country's economic behavior will be hit and invest less. I define the degree of the fiscal freedom in host country as FS and that in our country as CFS.

3) Financial Freedom (FN)

The score is from 0 to 100. The degree of the financial freedom is calculated according to the five indicators, such as the government's financial services, credit activities, and degree of regulation of financial institutions, financial markets, capital market maturity and the opening of foreign financial institutions. The higher the score is, the more market-oriented financial services enterprises in the country to perform in. What's more, high scores also means the enterprises are more willing to invest in. I define the degree of the financial freedom in host country as FN and that in our country as CFN.

4) Monetary Freedom (MF)

The score is from 0 to 100. The degree of the monetary freedom is calculated according to weighted average rate of inflation over the last three years and price regulation. The higher the score is, the more stable the country's price is and the less inflation is. From micro-aspect the less price control is, the more willing enterprises are to invest in this country. I define the degree of the monetary freedom in host country as MF and that in our country as CMF.

5) Trade Freedom (TR)

The score is from 0 to 100. The degree of the trade freedom is calculated according to weighted average tariff rates and non-tariff barrier. The higher the score is, the fewer barriers to trade, the more inclined enterprises are to invest in this country. I define the degree of the trade freedom in host country as TR and that in our country as CTR.

6) Investment Freedom (IV)

The score is from 0 to 100. The higher the score is, the country encourages various types of economic activities. Correspondingly, investment in this country will increase. I define the degree of investment freedom in host country as IV and that in our country as CIV.

7) Freedom from Corruption (FC)

The score is from 0 to 100. The largest score 100 means there no corruption in this country and the score 0 means the country's corruption is very serious. I define the degree of freedom from corruption in host country as FC and that in our country as CFC.

8) Business Freedom (BF)

The score is from 0 to 100. The higher the score is, the more simply faced with the procedure for the investors to start the enterprise, enterprise management in the country is. There are fewer barriers and companies are more willing to invest in the country. I define the degree of business freedom in host country as BF and that in our country as CBF.

9) Labor Freedom (LB)

The score is from 0 to 100. The higher the score is, the more choices individual has and the higher minimum wage costs and firing costs the company faces. The more free flow of labor is, the less investment the enterprise will invest. I define the degree of labor freedom in host country as LB and that in our country as CLB.

10) Culture Distance (CD)

Its formula is:

$$CD_j = \sum \left[\frac{(I_{ij} - I_{ic})^2}{V_i} \right] / 4$$

CD_j (culture dimension) means the cultural distance between our country and the host country. The word "I" means culture dimensions proposed by the director of the Holland Institute of international cultural, Hofstede. Hofstede proposed a total of six cultural dimensions and I just select four of them to ensure data integrality, like uncertainty avoidance, masculinity/femininity, individualism/collectivism, power distance. The variable " I_{ij} " indicates the value of J host country in culture dimension I and the variable " I_{ic} " indicates the value of our country in culture dimension I. What's more, the variable " V_i " indicates the variance of the culture distance between China and the host country.

4.2. Sample and Data Sources

In this paper, a total of 58 countries are selected as samples and covers 10 years of data from 2003 to 2012. I

mainly take two factors into account for the sample selection. One is availability of data. Data of China's direct investment in the host country, the various control variables, explanatory variables are clearly documented from 2003 to 2012. What's more, I exclude tax havens, such as the Cayman Islands, British Virgin Islands and other foreign investment. The other one is uniform distribution of geographical location and the level of economic development. The selected 54 host countries in the geographical location cover six continents of Asia, Africa, Latin America, Europe, North America, Oceania. The 54 host countries are from low income/medium/low/medium/high income countries.

China's OFDI flow data comes from "China foreign direct investment statistics communiqué, 2003-2012". Among control variables, the data of GDP of the host country and natural resources endowment is based from United Nations Commodity Trade Statistics Database, which belongs to the world development indicators. And the rest one, Technical readiness condition, comes from Global Competitiveness Report issued by World Economic Forum every year. Explanatory variables, like Property Rights, Fiscal Freedom, Financial Freedom, Monetary Freedom, Trade Freedom, Investment Freedom, Freedom from Corruption, Business Freedom, Labor Freedom, are from the global economic freedom index jointly issued by The Wall Street journal and the United States Heritage Foundation. Culture Distance is calculated on the basis of the cultural dimension proposed by Hofstede. Need note here is that Hofstede has proposed a total of six cultural dimensions up to now. But because Hofstede has not measured the corresponding data of some countries on the other two indicators, taking into account the data coherence, this paper selects only four of them: masculinity/femininity, individualism/collectivism, power distance, uncertainty avoidance.

5. Empirical Test and Result Analysis

5.1. Empirical Test

Model (1) studies the impact of China's institutional factors on China's OFDI; Model (2) studies the impact of the institutional factors of host country on China's OFDI. According to the results of model (1) and (2), model (3) selects several explanatory variables that are significant and consistent with the reality to investigate what are the decisive factors among China's and host country's institutional factors (Table 2).

In models (1) and (2), Hausman test is carried out after the fixed effect regression and random effects regression and the results reject the original hypothesis, so I choose the fixed effect regression, then I test heteroscedasticity and find both are heteroscedastic. And serial correlation does not exist, but there is cross-section correlation. So the regression results of model (1) and model (2) consider the different variance and cross-section correlation. Model (3) is heteroscedastic and cross-section correlation can be ignored, so it's just robust fixed effect regression. In addition, previous research has shown that the enterprise will not only take into account the corruption of the host country but also our own condition in the process of foreign direct investment [12]. So we made some adjustments to the degree of corruption in models (2) and (3). Here CFC is said to be the difference absolute value between China and the host country corruption.

5.2. Results Analysis

All control variables are positive in models (1)-(3), which shows that the bigger the host country market is, the more natural resources, the more advanced technology, the more Chinese enterprises tend to invest in the country.

In model (1), we choose Chinese institutional factors, such as Property Rights, Fiscal Freedom, Financial Freedom, Monetary Freedom, Trade Freedom, Investment Freedom, and Business Freedom. Except Financial Freedom and Trade Freedom, all other institutional factors are significant. Variable Monetary Freedom is significant at the 10% level and the others are significant at the 1% level.

The degree of freedom of our own trade policy has little effect on our country's foreign direct investment, which is in line with our previous guess. The degree of financial freedom is not significant, mainly because the majority taking part in foreign direct investment is state-owned enterprises. In the process of outward investment, they can obtain low cost funds from the state. The expanding of the degrees of financial market is not conducive to them. With the development of our economy and the sound of the financial system, there will be more private enterprises to invest abroad especially considering domestic inadequate consumption and overcapacity. For more fiscal freedom and retained earnings, the enterprises are more willing to go abroad.

Table 2. Results of empirical test.

	Model (1)		Model (2)		Model (3)
cpr	-0.287*** (-6.74)	pr	-0.008 (-1.49)	cpr	-0.260*** (-5.48)
cfs	0.305*** (7.31)	fs	0.004 -0.28	cfs	0.272*** (4.14)
cfm	-0.634 (-1.62)	fm	0.003 (0.41)	cmf	0.125** (2.88)
cmf	0.118* (2.43)	mf	-0.063*** (-4.72)	civ	-0.067* (-2.63)
ctr	-0.02 (-0.93)	tr	0.031*** (4.44)	cbf	-0.066** (-3.17)
civ	-0.077*** (-3.98)	iv	0.002 (0.21)	tr	0.009 (0.55)
cbf	-0.076*** (-4.44)	bf	-0.005 (-0.30)	cfc	-0.067*** (-3.69)
		cfc	-0.121*** (-7.86)	mf	-0.010 (-0.40)
		cd	-24.647*** (-8.11)	cd	. .
		lb	-0.006 (-0.66)	_cons	-20.506 (-1.54)
		Control Variable			
lgdp	0.352 (-0.71)		2.523*** (11.24)		0.422 (0.91)
nr	0.019 (-0.61)		0.039 (1.87)		0.036 (1.37)
tn	0.316* (-2.5)		0.570* (2.24)		0.331 (1.38)
R² Value	0.5428		0.3934		0.5664
F Value	1053.89		484.21		31.63

Note 1: The value in the lower bracket is *t*; Note 2: ***, **, *, Respectively stands for 1%, 5%, 10% level significantly.

In model (2), the institutional factors of the host country are all significant. In the process of China's foreign direct investment, enterprises often pay less attention to the degree of the host country's monetary freedom policy. The regression results are in contrast to our preliminary discussion that the high degree of the host country's monetary freedom policy comes along with more outward investments. At present, China's OFDI mainly considers from the national strategic considerations. Along with Chinese growing market, the host country's monetary policy should be paid more attention to.

The explanatory variables of model (3) are based on models (1) and (2) and picked among significant variables. According to the result, I conclude that institutional factors of the host country have little effect on China's OFDI, which shows that it's our own institutional factors that play more important role in the process of China's OFDI. At the same time, the degree of the corruption between China and the host countries also plays an important role. Many companies, for psychological security, will give priority to the countries with similar national conditions in the process of outward investment.

6. Policy Recommendations

Since the reform and opening up, Chinese economy has truly developed for only twenty or thirty years. To help the enterprises more healthily and fast into the world, the government should give energetic support to overseas investment. According to the empirical study, the following solutions are put forward to better serve the enterprises.

6.1. Fiscal Policy

As far as the fiscal policy, China should improve rich in the people and reduce the tax burden of enterprises which will obtain more private funds and allocate assets freely. Especially under the circumstances of economy downward pressure, the rising value of human capital, inadequacy of domestic consumption, the government need try its best to promote the enterprises instead of pressure.

6.2. Money Policy

More free China's monetary policy is, more independent financial institutions are, more liberal interest rate is, the enterprises are more conducive to invest abroad.

Since the reform and opening up, China centralized resource to create wealth by the means of supporting a number of enterprises which can get access to lower cost funds from banks. Whether in rich countries or in technologically advanced countries or promising market countries, obtaining lower capital will make up for the late start of the business.

China should further develop liberalization of the financial market, accelerate interest rate liberalization to give the market the decisive role and go abroad.

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