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The effect of the Chinese government policies on outward foreign direct investment by domestic enterprises: a policy analysis

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Main message: China has issued a number of policies aimed at driving domestic enterprises to engage in outward foreign direct investments, by analyzing these policies, their impact appeared to have a double-edged sword effect.

Key Points:

As China's capital inflows remained far greater than capital outflows, the Chinese government has issued a number of policies (including the “Go globally” strategy and the “The Belt and Road” initiative) aimed at driving domestic enterprises to engage in outward foreign direct investment (OFDI).

Using policy analysis technique, we analyze the OFDI-related advantages that can be achieved to domestic enterprises under the influence of government policies to identify their impact.

While the analysis shows that the Chinese government policies can promote OFDI for enterprise, by stimulating domestic enterprises to expand globally, these policies have also negative impacts on enterprises' OFDI.

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Abstract

By recognizing that foreign direct investments (FDI) are not only vital for advancing firms' international competitiveness but also they have substantial impact on the national economy, the Chinese government started to encourage capital outflows. However, under the guidance of the "Opening up" policy, China's capital inflows remained far greater than capital outflows. Therefore, the Chinese government has issued a number of policies aimed at driving domestic enterprises to engage in outward foreign direct investment. The most prominent in this series of policies is the "Go globally" strategy and the "The Belt and Road" initiative. In this study, we critically analyze the two policies aiming to understand how China actually promotes the outward foreign direct investment (OFDI) of their domestic enterprises. Using policy analysis technique, we analyze the OFDI-related advantages that can be achieved to domestic enterprises under the influence of government policies. Furthermore, we investigated the impact of government policies on corporate foreign direct investment spinning from the Chinese economy. Our analysis shows that the Chinese government policies can promote OFDI for enterprise, where government support and encouragement schemes can stimulate local enterprises to expand globally. Importantly, the Chinese government use diplomacy to enable these local enterprises to understand the investment policies and institutional environment of host countries in advance, which in turn, drives the risk-taking potential of these enterprises. However, the Chinese government policies also have negative impacts on enterprises' OFDI.

² Paper classification code: F21 International Investment • Long-Term Capital Movements

1 INTRODUCTION

The main manifestation of today's world economic development is economic globalization, which has created opportunities for transnational development for enterprises of all countries. Specifically, globalization not only provides enterprises with a broader market and a faster media, but also builds a global consumer culture (Fang et al., 2019, Vongpraseuth and Choi, 2015). In addition, the major feature of economic globalization is outward foreign direct investment (OFDI), which is also the core driving force for economic growth in various countries. Moreover, OFDI is mainly reflected in manufacturing, service, resource development and high-tech industries. Today, the vast majority of countries in the world pursue liberalized outward foreign direct investment policies (McManus et al., 2012), which refers to lower the barriers of outward foreign direct investment, reduce the supervision and regulation of international capital, focus on the interests of both sides of investment, and most importantly, provide investors with a fair and just investment environment (Cho, 2003). In addition, outward foreign direct investment has also accelerated the innovation of enterprises in the process of globalization. Therefore, in the face of the current fierce international competition environment, companies from all countries have acquired foreign capital by actively participating in outward foreign direct investment (Al-Shawaf and Almsafir, 2016).

China, for example, is the world's second largest foreign investment country after the United States. According to Figure 1, since 2004, Chinese enterprises have maintained rapid growth in outward foreign direct investment, and the total amount of OFDI reached a peak of US \$196.15 billion in 2016. Although it fell by \$37.86 billion in 2017 (Statista, 2019), China's interest in outward foreign direct investment continues to increase (DW, 2017). Moreover, outward foreign direct investment has always played a vital role in China's economic and innovative development (Wahed and Rahman, 2018, Yu et al., 2019). Taking Huawei as an example, Huawei introduces and utilizes advanced technologies in foreign markets through outward foreign direct investment, and develops new

products through continuous learning and innovation of new technologies, while at the same time improving its own technology and international competitiveness (Piperopoulos et al., 2018).

However, although outward foreign direct investment has brought many benefits to China, Chinese enterprises have not been smooth on the road to outward foreign direct investment (Chen, 2017). Nowadays, in the fierce market competition environment, a great many of enterprises have embarked on an international development path and launched outward foreign direct investment. However, the turbulent international market makes enterprises in a highly uncertain environment. Specifically, as enterprises are unfamiliar with local laws and regulations and consumer preferences, enterprises with uncertainty need to spend extra time to understand the host country market (Conconi et al., 2016). In addition, since high-tech industries are protected by the state as assets, Chinese enterprises will face stricter restrictions on investment in high-tech industries (Statista, 2019). Hence, enterprises that rely on their own strength to engage in outward foreign direct investment will encounter a variety of obstacles. Accordingly, in order to help domestic enterprises to smoothly conduct outward foreign direct investment, the government has played a crucial role in promoting OFDI. All in all, OFDI is a significant approach for enterprises to go international. However, OFDI of enterprises cannot be separated from the support and protection of the government. Moreover, with the support and help of the government, the overall capabilities of the enterprise will be greatly promoted and the international competitiveness of the enterprise will also be improved. In particular, the government can shape a stable and secure environment for enterprises through the development of policies (Luo et al., 2010). Therefore, the main question of this research is how does the Chinese government promotes outward foreign direct investment by domestic enterprises? To this end, we critically analyzed the OFDI-related advantages that can be achieved to domestic enterprises under the influence of government policies. Furthermore, we investigated the impact of government policies on corporate foreign direct investment spinning from the Chinese economy.

Reflecting on the analysis, this study contributes to the literature by scrutinizing the impact of two most distinctive OFDI strategies, the “Go globally” strategy and the “The Belt and Road” initiative (Buckley, 2020, Enderwick, 2018). In addition, we utilized extended forms of the eclectic paradigm to analyse how the “Go globally” strategy and the “The Belt and Road” initiative promote OFDI by Chinese enterprises. We integrate our analysis by offering a number of predicting propositions that specifically articulate the role and impact of the Chinese government policies on the effectiveness of the OFDI promotion strategy.

Insert Figure 1 about here

2 OVERVIEW OF TRANSNATIONAL INVESTMENT

Transnational investment is one of the central performances of multinational corporations responding to economic globalization which is regarded by the countries of the world as the core factor affecting the country's economic development (Cheng and Kwan, 2000). In recent years, foreign direct investment has attracted the attention of numerous researchers and has been discussed in a great deal of literatures. Since the 1980s, an increasing number of countries have relaxed restrictions on foreign direct investment and encouraged foreign capital inflows. From 1982 to 2000, global foreign investment inflows increased by 22 times to nearly \$1.3 trillion in just eight years. Moreover, it has been reported that the total amount of FDI in the world over the past few decades has been far above the growth rate of world trade and GDP (Azman-Saini et al., 2010). And the primary reason is that since foreign direct investment is less destructive, most countries and enterprises actively participate in outward foreign direct investment and enjoy the benefits of FDI. On the contrary, others believe that FDI has hampered investment by domestic enterprises (Tang et al., 2008). Therefore, different researchers hold diverse views on the impact of foreign direct investment on economic development. China is an interesting example. Most of the literature mentions that China's rapid economic growth is due to China's “Opening up” policy and its accession to the WTO in 2001, which has promoted

China's foreign capital inflows and significantly improved China's international status. Specifically, since the fulfillment of the "Opening up" policy, China has become the country that attracts the most foreign direct investment among developing countries. And in 1993, China became the second largest recipient of foreign investment after the United States (Cheng and Kwan, 2000). In brief, the main reason for such a phenomenon is inseparable from the rapid development of China's economy and the unprecedented level of opening up (Liu et al., 2002). As a matter of fact, China's foreign investment policy consists of two elements, which not only absorb overseas investment, but also encourage enterprises to engage in outward foreign direct investment. Primarily, China hopes to integrate itself into a globalized economy more smoothly through capital outflows and capital inflows. During the period of economic reforms in China, precious few Chinese enterprises were engaged in outward foreign direct investment. And initially several state-owned enterprises involved in outward foreign direct investment (Morck et al., 2008). However, since the beginning of the twentieth century, Chinese government policies have changed (Davies, 2010, Enderwick, 2017). China has launched the "Go globally" strategy with the purpose of encouraging and supporting Chinese enterprises to engage in outward foreign direct investment. Thus, under the impetus of the "Go globally" strategy, both state-owned enterprises and non-state-owned enterprises in China have positively responded to outward foreign direct investment (Cheung and Qian, 2009). And as of the end of 2008, more than 7,000 Chinese enterprises had made outward direct foreign investment in 180 countries or regions, with a total investment of nearly US\$52 billion (Liu and Lu, 2011). Luo et al. (2010) argue that the significant increase in the interest of emerging market enterprises in OFDI is largely related to the governments of their home countries. Specifically, the governments of emerging economies (such as China) provide favourable investment policies and incentives for domestic enterprises in order to encourage them to engage in outward foreign direct investment to enter the global market (Luo et al., 2010). In addition, the Chinese government greatly encourages and promotes outward foreign direct investment by domestic enterprises, which not only creates more

investment opportunities for enterprises, but also assists enterprises to engage in outward foreign direct investment more stably (Davies, 2010). Thus, the growth of OFDI by Chinese companies cannot be separated from the positive encouragement and promotion of the Chinese government (Wahed and Rahman, 2018).

3 FDI AND OFDI: A THEORETICAL BACKGROUND

In the past few decades, foreign direct investment has been extensively studied by researchers. Nowadays, there are many theories to explain foreign direct investment (Galan and Gonzalez-Benito, 2001). Originally, the earliest attempt to explain foreign direct investment was David Ricardo's theory of comparative advantage. However, this theory cannot be used to explain foreign direct investment. Thus, the Heckscher-Ohlin model, which holds different views from the theory of comparative advantage, is presented. The main structure of the model is $2 \times 2 \times 2$, which emphasizes two production factors and two commodities in two countries (Faeth, 2009). Moreover, Raymond Vernon proposed the product life cycle theory in 1966. Such a theory links the product life cycle to foreign investment and accounts for the investment of American companies in the mid to late 20th century. In addition, in the late 1970s, Buckley et al. (2008) put forward an internalization theory that explains foreign direct investment from a completely new perspective. And the enlightener of the internalization theory was Coase, which was later proposed by Hymer in 1976. However, the internalization theory has only explained a portion of the foreign direct investment (Denisia, 2010). Therefore, Dunning came up with the eclectic paradigm based on the internalization theory (Rugman, 2010), which was used to analyse the motives and determinants of enterprises' foreign direct investment. And such a theory consists of ownership advantage, location advantage and internalization advantage (Sethi et al., 2003). To be specific, ownership advantage is the unique advantage of the enterprise itself, which can guarantee the enterprise to maintain its competitiveness in the dynamic market environment. Furthermore, the internalization advantage is based on the ownership advantage and is an advantage to maintain the internal capabilities of the enterprise (Galan

and Gonzalez-Benito, 2001). On top of that, enterprises with internalization advantages can not only reduce transaction costs, but also control market defects (Faeth, 2009). Additionally, the location advantage, different from the first two advantages, is built on the host country. Specifically, it refers to the location advantages that enterprises can obtain when they are engaged in international activities in the host country (Ali et al., 2010). All in all, the formation of foreign direct investment is inseparable from the interaction of ownership advantage, location advantage and internalization advantage. And these three advantages complement each other, which further influences the decision-making of enterprises in the process of internationalization (Galan and Gonzalez-Benito, 2001).

In recent years, a growing number of Chinese enterprises engaged in outward foreign direct investment have attracted the attention of researchers. From a theoretical point of view, most scholars use the eclectic paradigm, the investment development path, the resource-based view, and the institution-based view to study this phenomenon (Rugman, 2010). Concretely, the Investment Development Path (IDP) is a derivative theory of the eclectic paradigm and is known as the most advanced theory for interpreting inward and outward FDI. And the IDP consists of five paths, all of which involve specific location advantages of attracting FDI, while strengthening the ownership advantages of local enterprises in OFDI (Stoian, 2013). Moreover, the resource-based view emphasizes that companies can only expand overseas if they have ownership advantages. And the purpose of overseas expansion of enterprises is to strengthen the competitive advantages and make up for the competitive disadvantages. Furthermore, ownership advantages can help enterprises maintain a sustainable competitive advantage in the global marketplace. In addition, the institution-based view holds that enterprises must follow the host country's policies and institutional environment when expanding overseas. Similarly, the home country environment also enables enterprises to remain unique when engaging in outward foreign direct investment (Cui and Jiang, 2010, Yu et al., 2019). On top of that, it is well known that the eclectic paradigm is used to explain how enterprises make foreign direct investment decisions. However, the eclectic paradigm also has different usages.

In its extended form, the eclectic paradigm, as an analytical framework, analyses the location and reasons for enterprises to choose OFDI based on ownership advantages, location advantages and internalization advantages. And the core content of such an analytical framework is market seeking, natural resource seeking, efficiency seeking and strategic asset seeking (Sethi et al., 2003). Hurst (2011) used the eclectic paradigm as an analytical framework to study the determinants of OFDI of Chinese enterprises. Therefore, this study also uses this approach, which adopts the eclectic paradigm as an analytical framework to study how Chinese government policies can help domestic enterprises gain advantages to promote OFDI.

4 METHODOLOGY

This research seeks to investigate the role of the Chinese government policies in promoting the OFDI of domestic enterprises. In a further stance, in terms of determining the research content, the specific method is to raise several sub-questions around the research question. Specifically, this study focuses on the policies of the Chinese government and the OFDI of Chinese enterprises. Accordingly, this study has two research objectives (1) to study the state of China's OFDI before the implementation of government policies (2) to study the impact of the implementation of Chinese government policies on OFDI of Chinese enterprises. Therefore, in terms of the two focuses, this study has raised five sub-problems, which are respectively (1) Are the OFDI of state-owned enterprises and private enterprises equal? (2) Is the total amount of capital inflows and capital outflows in China proportional? (3) Does China invest more in innovation? (4) Is China's OFDI beneficial to China's GDP growth? (5) Does the OFDI of Chinese enterprises increase or decrease under the leadership of Chinese government policies? Then, after identifying the five sub-questions, the research method also needs to be determined. Hence, the data collection for this study was limited to the period from 1985 to 2019. In addition, all collected data is in US dollars.

In terms of data collection, we used different data sources, as summarized in Table 1. We also collected data on capital inflows and outflows from China between 2000 and 2018 from the National

Bureau of Statistics of China to study the comparison of capital inflows and capital outflows in China after the implementation of the “Go globally” strategy. And since the National Bureau of Statistics of China has not released the annual data of 2019 yet, we only collected the annual data of 2018. The National Bureau of Statistics of China is a direct agency of the State Council of China, and its main duties are national statistics and national economic accounting. As a result, the data from the National Bureau of Statistics of China is more authoritative and more realistic. Furthermore, this report gathered China’s mergers and acquisitions from 1992 to 2019 from the Institute for Mergers, Acquisitions and Alliances (IMAA). IMAA is responsible for creating and exchanging data related to mergers and acquisitions and alliances, which is the most global professional organization in the world. In addition, this report collected the total amount of R&D expenditure from OECD for the whole of China from 2000 to 2017. The OECD is an intergovernmental international economic organization composed of 36 countries with market economies, and its primary responsibility is to address the challenges and capture opportunities brought by globalization. Moreover, this report collected China's annual GDP growth rate from 2000 to 2018 from the World Bank. The World Bank is a specialized agency of the United Nations operating international financial services and a subsidiary of the United Nations. Additionally, this report also gathered data on China’s investments & contracts and investment fields in Belt and Road Initiative from 2013 to 2018 from China Global Investment Tracker. China Global Investment Tracker is published by the American Enterprise Institute to track China's global investments. And the reason why the data is collected in these places is because these websites are more authoritative and the data is more authentic and accurate. On top of that, the specific way to collect these data is to enter the websites of National Bureau of Statistics of China, IMAA, OECD, the World Bank and China Global Investment Tracker, and then conduct keyword search and select the year to screen out the corresponding data and download data.

Insert Table 1 about here

In addition, the main reason for collecting data on these websites is that this research involves the Chinese government and Chinese enterprises' OFDI, therefore, such websites can provide detailed and authentic data. Specifically, in the next section, the data of the amount of China's OFDI by firm type from 1985 to 1999 are firstly used to analyse the status of China's OFDI, so as to draw out the strategies adopted by the Chinese government to promote China's OFDI based on this status. Furthermore, the next section is divided into four sub-parts, namely, strategic asset seeking, market seeking, natural resource seeking and efficiency seeking. As for the part of strategic asset seeking, this study firstly used the data of China's FDI from 2000 to 2018 to understand the changes of China's capital outflow after the release of the "Go globally" strategy by the Chinese government. Moreover, with the implementation of the "Go globally" strategy, the Chinese government also greatly encourages Chinese enterprises to invest in innovation. Thus, this study applies China's M&As data from 1992 to July 10, 2019 and China's total R&D expenditure from 2000 to 2017 to study China's pursuit of innovation capability. Additionally, in terms of market seeking, this study reflects that although the "Go globally" strategy has greatly improved China's economy, China's economy has begun to slow down, which leads to another policy issued by the Chinese government called "The Belt and Road" initiative (Yilmaz and Li, 2020). Concretely, the "The Belt and Road" initiative works with more than 60 countries and helps countries along the belt and road develop infrastructure. Therefore, this research studies China's market seeking for OFDI through Chinese Investments & Contracts in Belt and Road Initiative from 2013 to 2018. And this study also analyses the natural resource seeking of Chinese enterprises under the "The Belt and Road" initiative by using the data of China's investment under the Belt and Road initiative by sector between 2013 and 2018.

All in all, since most of the data collected in this study comes from government agencies, the authenticity of the data can be guaranteed. Moreover, with the help of these data, the reader can better understand what the report wants to express. In addition, the data collected in this study answers the above five sub-problems and the data are mutually influential. However, there are still areas to be

followed up in this study. Since most of the above-mentioned websites do not provide annual data for 2019, it is possible to further follow up the data to study the OFDI of Chinese enterprises.

5 THE ANALYSIS AND PROPOSITIONS

We start this section by elaborating on the status of China's investment since the implementation of the “Opening up” policy. Then, we adopt the eclectic paradigm as the analytical framework to study how “Go globally” strategy and “The Belt and Road” initiative promote the OFDI of domestic enterprises. Finally, we discuss whether the “Go globally” strategy and “The Belt and Road” initiative have positive or negative effects on Chinese enterprises' OFDI.

Investment Status

The policy of “Opening up” in the late 1970s was a pivotal decision in the major changes in the Chinese economy. And under the guidance of this policy, China has opened its doors and gradually moved to the world, and the most special manifestation is the achievements in foreign direct investment (Cheung and Qian, 2009). Specifically, China has attracted a batch of foreign capital into China after opening up to the outside world, which has made China the largest foreign-invested country in developing countries (Liu et al., 2002). However, China hopes to attract capital inflows and promote capital outflows in terms of foreign direct investment (Morck et al., 2008). In a further stance, China wishes domestic enterprises can ease the fierce domestic competition and saturated market demand through transnational operations. Similarly, China also expects enterprises can increase their position in the international market through OFDI (Hurst, 2011). Nevertheless, under the guidance of the “Opening up” policy, only a small number of enterprises have participated in outward foreign direct investment and most of them are state-owned enterprises, which is far from the goal of China to promote domestic enterprises to engage in OFDI (Sutherland et al., 2020). As can be seen from Figure 2, the gap between the participation of state-owned enterprises and private enterprises in OFDI in China from 1985 to 1990 is wide. Since 1985 the total amount of outward foreign direct investment of state-owned enterprises has more than tripled that of private enterprises.

Moreover, the number of state-owned enterprises in outward foreign direct investment have gradually increased during this period, while the private enterprises has maintained a fairly slow growth. And the main reason for this phenomenon is that state-owned enterprises are largely dominated by the government and therefore have more resources and guarantees. However, the lack of resources and capabilities of private enterprises has led to a late start in OFDI. Therefore, in order to improve this situation, China has launched the “Go globally” strategy.

Insert Figure 2 about here

Government Policies

Strategic Asset Seeking

In 2000, the Chinese government launched a new strategy called “Go globally” strategy with the goal of stimulating and supporting Chinese enterprises to conduct OFDI (Deng, 2007, Zhang et al., 2020). Such a strategy allows enterprises to take advantage of “two markets and two resources”, which refers to the markets of home and host countries and the resources of home and host countries (Chen and Orr, 2009). Moreover, under the influence of the “Go globally” strategy, the role of the government has changed from the original regulator and decision maker to the mentor and supporter. In addition, in order to encourage domestic enterprises to engage in outward foreign direct investment, the government has also relaxed the regulation of OFDI (Lu et al., 2014), which not only simplifies administrative procedures, but also the approval procedures for outward foreign direct investment (Luo et al. , 2010). And the purpose of such changes is to solve the problem that capital outflows in China are far below capital inflows, and the government hopes to promote outward foreign direct investment in Chinese enterprises through the “Go globally” strategy. Therefore, according to Figure 3, since the implementation of the “Go globally” strategy, although China’s capital inflows are still larger than capital outflows, the capital outflows have been growing rapidly and reached US\$124.6 billion in 2017. Furthermore, it can be seen from Figure 3 that the amount of capital outflows and capital inflows in China in 2017 are quite close.

Additionally, China's ability in research and development is weak, which is not conducive to China's development in the international market (Li and Zhang, 2020). Hence, the “Go globally” strategy specifically encourages domestic enterprises to invest in innovative technologies and hopes that enterprises can improve their innovation ability through OFDI (Deng, 2009). Furthermore, nowadays, technological innovation remains the core element for enterprises to acquire sustainable competitive advantage in the global marketplace (Deng, 2007).

Insert Figure 3 about here

According to Figure 4, only a very few of enterprises in China participated in M&As between 1992 and 2000. However, since 2001, the number of transactions in China's mergers and acquisitions has continued to rise, and reached a maximum of US\$8,065 billion in 2016. Thus, it can be seen from Figure 4 that China has made amazing achievements in M&As. And the reason for this phenomenon lies not only in the enterprise itself but also in the government. Specifically, the Chinese government encourages domestic enterprises to acquire new technologies and management skills through mergers and acquisitions to enhance their competitiveness in the global market. And in order to facilitate domestic companies to acquire new technologies through M&As, the Chinese government provides policy support and financial incentives for enterprises. In today's world, innovation is the method by which enterprises can maintain a sustainable competitive advantage in the global marketplace. Therefore, the support and encouragement of government policies have enabled Chinese enterprises to have enough courage and guarantee to conduct M&As on the international market (Deng, 2009). Moreover, Chinese enterprises can improve their R&D capabilities through M&As, which not only enhances the company's international competitiveness, but also satisfies dynamic consumer behaviour (Lu et al., 2011). Nowadays, China spends a lot on development every year. As can be seen from Figure 5, China has invested a large amount of money in R&D every year since 2000 to 2017. Furthermore, the fact that the cost of R&D in China has only increased over the past 17 years is a sign of China's emphasis on innovation. Therefore, we propose:

Proposition 1: The “Go globally” strategy can be instrumental in driving enterprises innovation capacity

Insert Figure 4 about here

Insert Figure 5 about here

Market Seeking

According to Figure 6, China's GDP growth rate has been rising between 2000 to 2006. However, the growth rate has slowed since 2006 and has been showing a slow growth since 2010. Therefore, in order to improve this situation, President Xi Jinping proposed the “The Belt and Road” initiative in 2013.

Insert Figure 6 about here

The “The Belt and Road” initiative (B&R) is the abbreviation of “Silk Road Economic Belt” and “21st Century Maritime Silk Road” (Swaine, 2015). In a further stance, the “Belt and Road” is the longest economic corridor in the world (Wang and Gao, 2019). And such an initiative starts with China, which aims to create an “economic belt” across Asia, Europe and the African continent (Pop, 2016), with more than 60 countries participating in the project (Ferdinand, 2016). Specifically, the B&R initiative is a project based primarily on the construction and development of infrastructure to build an interconnected infrastructure project network between China and the “Belt and Road” countries or regions through investment in roads, railways, oil and gas pipelines and other infrastructure (Cai, 2018).

Since the “Opening up” policy, a great deal of countries have invested in China, which has led to increased competition in China's domestic market and is not conducive to the development of domestic enterprises. Therefore, outward foreign direct investment has become the primary choice for Chinese enterprises to operate transnationally (Hurst, 2011). Furthermore, nowadays, a growing number of countries have high levels of government intervention and unsafe intellectual property

protection, which hinder enterprises' investment and trade in these countries while increasing corporate negotiation and transaction costs (Morck et al., 2008). Thus, the development of enterprises in the international market is impeded by various forces. The B&R initiative proposed by President Xi Jinping consists of five major areas. Political coordination is part of the “Belt and Road Initiative” initiative, which refers to the joint formulation of “development tactics and policies, regional business plans and measures”. Such measures contribute to solving the problem of opaque policies encountered by enterprises in outward foreign direct investment, which can enhance understanding and control of the market (Wang and Gao, 2019). In addition, the facilities connectivity is also one of the contents of the B&R initiative. China has helped the countries along the B&R route to develop infrastructure with the aim of building an interconnected infrastructure network (Du and Zhang, 2018). Moreover, excellent transportation and convenient communication networks capacitate Chinese enterprises to grasp and understand the relevant information of the host country more rapidly when investing abroad, which can reduce search costs and investment costs (Pop, 2016). According to Figure 7, since the launch of the “The Belt and Road” initiative in 2013, the investment of Chinese enterprises in the countries along the route has grown rapidly, and the total investment amount reached US\$602.96 billion as of last year. Accordingly, Figure 7 reflects the phenomenon that Chinese enterprises actively participate in the B&R initiative proposed by the state, which also contributes to the development of Chinese enterprises. Specifically, under the influence of the B&R initiative, inter-governmental cooperation among countries along the route can make enterprises better understand the policies of host countries so as to increase their understanding and control of the market. Additionally, the developed infrastructure can also enable enterprises to understand the information related to the host country at the fastest speed, thus reducing the cost of search and transaction (Pop, 2016). Therefore, we propose that:

Proposition 2: The interconnected infrastructure project network can help Chinese enterprises reduce their investment costs in host countries and strengthen their understanding and control of host markets.

Insert Figure 7 about here

Natural Resource Seeking

Moreover, the host country largely influences the investment environment and political risks faced by enterprises when investing overseas (Lu et al., 2014). In addition to helping countries along the route to develop infrastructure, “The Belt and Road” (B&R) initiative also includes political cooperation (Du and Zhang, 2018).

“The Belt and Road” initiative proposed by President Xi Jinping is a project with the primary objective of helping countries along the route to develop their infrastructure. Specifically, more than 60 countries have participated in the B&R initiative since the project started, and China has gradually become a source of financing for a growing number of countries along the route. Moreover, the B&R initiative also contains international political cooperation. In a further stance, China's political cooperation with the host country can help domestic enterprises to understand the policy and institutional environment of these cooperative countries in advance to avoid political risks and promote outward foreign direct investment (Du and Zhang, 2018). For example, Russia, as a member of the “The Belt and Road” initiative, is also a friendly partner of China's trade cooperation. To be specific, Russia and China have a cooperative project called a natural gas project, and the two countries have signed a series of trade and investment agreements of this project (Pop, 2016). As can be seen from Figure 8, it can be concluded that under the guidance of the B&R initiative, the industry in which China invests the most in the countries along the route from 2013 to 2018 is the energy with a total of US\$231.84 billion, followed by the transport with US\$163.42 billion. Nowadays, China has signed numerous cooperation agreements with Russia on natural gas projects. Therefore, if Chinese enterprises invest in natural gas in Russia, they will benefit more than investment in other countries. Accordingly, the B&R initiative is conducive to Chinese enterprises' investment in energy. In addition, due to the international cooperation between China and Russia, Chinese enterprises can have a prior understanding of not only Russia's investment and trade policies, but also its institutional

environment through their home country, thus enabling enterprises to survive and avoid risks in the highly uncertain global market environment. Accordingly, we propose:

Proposition 3: The B&R initiative can assist the Chinese enterprises to access resources while also helping enterprises understand the institutional environment of the host country and thus avoid political risks.

Insert Figure 8 about here

6 DISCUSSION

As informed by the previous discussion, China's "Go globally" strategy and the "The Belt and Road" initiative can be conducive to market seeking, natural resource seeking and strategic asset seeking (Li and Zhang, 2020, Zhou et al., 2019). Therefore, in this section we discuss critically the implications of these two policies.

In the context of fierce global competition, an increasing number of countries have recognized the importance of entering the international market. And enterprises from various countries acquire international competitiveness by engaging in outward foreign direct investment to establish connections with international markets. Moreover, governments around the world have also encouraged their companies to "go global" by issuing a series of policies. In short, government policies have the role of promoting and stimulating enterprises to engage in OFDI, which can not only directly impact the OFDI strategies of enterprises, but also indirectly affect the OFDI decisions of enterprises. For example, China. The Chinese government has adopted a series of policies aimed at providing a stable and supportive institutional environment for domestic enterprises to promote outward foreign direct investment of domestic enterprises (Lu et al., 2011). Specifically, the Chinese government has not only simplified the approval procedures for OFDI of domestic enterprises, but also provided financial incentives and political risk insurance for enterprises. In addition, the Chinese government has also simplified administrative procedures and relaxed controls on capital. And the purpose of such measures is to encourage domestic companies to engage in outward foreign direct investment to accelerate the integration of the Chinese economy into the world economy (Luo et al.,

2010). Additionally, the government also understands and studies the policies and institution of certain countries through diplomatic channels to help domestic enterprises obtain the experiential knowledge of specific countries in advance (Lu et al., 2014). For example, the “The Belt and Road” initiative encompasses international political cooperation. The Chinese government provides domestic enterprises with policies and institutions related to the partner countries, which not only helps enterprises understand the policies and institutions of countries along the route, but also improve their ability to take risks (Du and Zhang, 2018).

Therefore, enterprises will have stronger investment motives under the encouragement and support of the Chinese government. And with the help of the government, it will also promote the development of enterprises on the global stage (Lu et al., 2011). In addition, the government helps enterprises to know the host country's policies and institutions in advance through diplomatic channels, which can help enterprises to avoid the uncertainty and risks they face in OFDI to the maximum extent. Therefore, enterprises should make full use of the advantages brought by government policies to enhance their competitiveness in the international arena, so as to promote the development of national economy.

However, a series of policies formulated by the government have had positive impacts on enterprises while also having negative influences. Primarily, enterprises will become overly dependent on the home government. After the implementation of the “Go globally” strategy and the “The Belt and Road” initiative, the Chinese government has provided various supporting policies and incentives to promote the OFDI of domestic enterprises. Moreover, the Chinese government has also vigorously developed domestic infrastructure to help the development of domestic enterprises. And such behaviours have made both state-owned and non-state-owned enterprises heavily dependent on the resources of the home government, which has resulted in enterprises placing government needs first rather than customer demands. Furthermore, if the enterprise over-obey the needs of the government, it will lead to the lack of independent decision-making power and reduce the flexibility of the

enterprise, thus inhibiting the enterprise's OFDI (Huang et al., 2017). In addition, the government usually chooses the diplomatic way to increase the cooperation between countries to promote the OFDI of domestic enterprises, which may bring potential political risks to domestic enterprises. For example, the “The Belt and Road” initiative also poses political risks to China. Specifically, the B&R initiative works with more than 60 countries, however, there are potential political risks in some countries. For example, Pakistan, Afghanistan (Ferdinand, 2016). And such political risks will increase the risk of OFDI of Chinese enterprises and limit the development of Chinese enterprises.

7 CONCLUSION

Economic globalization is the dominant trend in today's world, and its main manifestation is foreign direct investment. Furthermore, foreign direct investment has various advantages, which not only can improve the innovation ability of the state and enterprises, but also help the development of enterprises in the international market and thus enhance the status of the home country. Moreover, a growing number of countries have relaxed their control over foreign direct investment. Consequently, the vast majority of enterprises choose to improve their international competitiveness through OFDI so as to improve the national economy. China is no exception. Under the influence of the “Opening up” policy, China's capital inflows are much larger than capital outflows. Hence, the Chinese government has issued a number of supportive policies to encourage OFDI by Chinese enterprises. Although many countries have relaxed their regulation of foreign direct investment, enterprises still have the risk of OFDI in the highly uncertain international environment. Additionally, if enterprises only rely on their own strength to engage in OFDI, they will not only encounter many obstacles and risks, but also spend more costs. Thus, the government's support and help not only create a stable and safe investment environment for enterprises, but also provide a guarantee for enterprises' OFDI in the international market. Therefore, the main research question in this report is how Chinese government policies can promote outward foreign direct investment of domestic enterprises. Specifically, this report focuses on the “Go globally” strategy and the “The Belt and Road” initiative to study how

these two government policies can promote OFDI by Chinese enterprises. In addition, this report also discusses the impact of the “Go globally” strategy and the “The Belt and Road” initiative on OFDI of enterprises.

In a further stance, the “Go globally” strategy and the “The Belt and Road” initiative have brought many advantages to domestic enterprises to promote OFDI. To sum up, these two policies play an important role in strategic asset seeking, market seeking, and natural resource seeking. Under the influence of the “Go globally” strategy, the Chinese government encourages domestic enterprises to acquire new technologies through mergers and acquisitions to improve their innovation capabilities. And in order to promote M&As in the international market, the Chinese government provides various incentive for enterprises. Moreover, under the impetus of the “Go globally” strategy, a great many of Chinese enterprises engage in OFDI and the Chinese economy is also growing rapidly. However, China’s GDP growth has slowed since 2006. Therefore, in order to solve this situation, President Xi Jinping proposed the “The Belt and Road” initiative. Specifically, the B&R initiative is dedicated to the development of infrastructure in more than 60 countries along the route so as to build an interconnected infrastructure projects network. Such measures not only help Chinese enterprises to seek new investment markets, but also obtain an early understanding of host country information to strengthen control of the host country market and reduce search and investment costs. Additionally, the B&R initiative also includes political cooperation, which largely helps Chinese companies gain an edge in acquiring new energy sources. Additionally, enterprises can also avoid political risks by understanding the host country's institutional environment in advance.

All in all, Chinese government policies can promote OFDI for enterprise. And with the encouragement and support of the government, enterprises will have stronger investment motives. Moreover, the Chinese government also helps enterprises to know the investment policies and institutional environment of host countries in advance through diplomacy, so as to improve the enterprises' ability to take risks. However, Chinese government policies also have negative impacts

on enterprises' OFDI. As Chinese government policies bring many benefits to enterprises' outward foreign direct investment, enterprises are excessively dependent on the government. And such behaviour reduces the flexibility of the enterprise and inhibits the development of the enterprise. Therefore, the government's encouragement and support policies have both positive and negative effects on enterprises. In addition, this report also has limitations. Since this report only focuses on what advantages the “Go globally” strategy and the “The Belt and Road” initiative bring to Chinese enterprises to promote OFDI, it may not be comprehensive. Accordingly, it is suggested that other researchers can study other policies issued by the Chinese government in addition to these two policies.

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