SOCIAL SCIENCE REVIEW ARCHIVES
ISSN Online: 3006-4708
ISSN Print: 3006-4694
https://policyjournalofms.com

Economic Foundations and Institutional Dynamics: Drivers of China's Outward FDI in Asia

Urooj Marium[1], Khizar Hayat[2], Umar Hayyat[3], Nazeer Muhammad[4]
[1] Master in International Business, Nantong University, China, uroojmarium0802@gmail.com
[2,4] Department of Economics, Abdul Wali Khan University Mardan, Email: hayatawkum2001@gmail.com, thisisnazeer1@gmail.com
[3] Economics and management, University of Poonch Rawalakot, umarhayyat786@gmail.com

Abstract
This research performs a quantitative investigation on the relationship between economic structure and institutional quality on China's OFDI in 34 Asian countries during 2003 to 2021. By using the data collected during the period 2009-2015, this study employs panel data analysis and a number of econometric estimators including the pooled OLS and Fixed-effects model in order to identify the major determinants of China's investment in this region. Economic controls were captured by use of economic factors that include per capita income, trade liberalization, cost of labor, foreign exchange rates and availability and accessibility of natural resources while the institutional controls were political stability of a country, quality of regulations, and control of corruption. The results indicate that economic development and trade liberalization have a positive influence on China's OFDI, but institutional quality is multifaceted with political stability being beneficial to investment, however corruption control and rule of law are negative for OFDI. Based on the finding of the study, it is agreed that Asian countries wishing to receive FDI from China should enhance the economic infrastructure, increase the quality of the institutional environment, and increase trade and business freedom. The pieces of information serve useful policy implications for policy-makers seeking to derive optimal gains from FDI.

Key Words: Economic Structure, Institutional Quality, Trade Openness, Asian Economies, Political Stability, Econometric Analysis

Background of the Study
Global operations have increased to unprecedented levels and interactions of unprecedented complexity in the current global economy. Outright investment, also referred to as FDI, which allows business enterprises to establish and maintain operations in other nations is a critical type of international business operation. FDI is a kind of FDI whereby a company owner from one economy has enduring interest in a business located in another economy, and significant influence or input in it. It is evidenced when a person from one economy invests at least 10% of the total votes in a company in the second economy. This paper contends that FDI has become an important constituent in the process of economic integration around the globe since such relationships foster long-term durable bondages between nations' economy. It retains internationally business by offering a chance to its shareholders to penetrate their markets, and it remains one of the most important conduits by which nations can learn about each other. Globalization of world markets and advanced technology have made international business more extensive and complicated than it has ever been. One component of this economic activity is the FDI, which makes it possible to own and control an operation in another country. FT defines FDI as an investment in the acquisition and establishment of control of assets in another country for more than $10 million that is lasting in nature. This sort of investment enhances a long-term commitment in economic relations between states, which makes it a key to economic globalization. In international business,

FDI plays an important role in globalization, ensuring export development and being one of the most important forms of transferring knowledge in the world economy. It is done in terms of inward and outward, stock, and flow amounts; by the OECD's FDI benchmarks, the fourth edition. UNCTAD has noted that foreign subsidiaries remain incredibly important for the progression and establishment of the international companies. Foreign direct investment (FDI) has increased as companies look for new ways to expand into foreign markets and get the resources they need. This is because cross-border investments are important for driving economic union and promoting international business cooperation. In 2021, FDI flows were worth US$1.6 trillion, which was 64.3% more than in 2020 when they were worth a very small amount. As economies improved in 2021, FDI grew everywhere. 4.3% of gross fixed capital formation (GFCF) in 2020 came from foreign direct investment. It made up 7.1% of GFCF in 2021 (UNCTAD Handbook of Statistics 2022). According to the data report on China's outward foreign investment, by the end of 2021, 28.6 million Chinese investors had set up 46 million FDI enterprises in 190 countries around the world. At the end of the year, the total assets of abroad businesses were $8.5 trillion. The total amount of FDI that went out of the country hit $2785.15 billion. For stocks, retained revenues were worth $1596.4 billion, while investments in debt instruments were worth $295.52 billion or 57.3% and 10.6% of the total, respectively. In Asia, the flows of outward stock of China FDI increased. In the year 2021, China provided $19.73 billion in FDI to ASEAN, which was a 22.8% increase from the year before. This was 11% of all FDI flows for the year and 15.4% of all FDI to Asia. At the end of the year, the total stock was 140.28 billion, which was 5% of all stocks and 7.9% of the total in Asia.

Problem Statement

The economic structures of the host nations influence China's outward foreign direct investment (OFDI) flow very positively. Conversely, it is unknown if the hypothesis is right or not. Despite China's development as a vital player in global industry and investment, foreign direct investment (FDI) from the nation may have little impact on the economic structures of the countries in which it invests. Even though China has become a major participant in global trade and investment, this remains true. Following extensive empirical data research and a critical review of the existing body of literature, it was discovered that on the one hand, there is a lack of studies examining the relationship between trading measures used for economic structure and China's FDI in host countries. We reach this result due to a scarcity of research exploring the relationship between economic structure and trade indicators in the present literature. On the other hand, many aspects of economic structure are disregarded, which is why we included institutional quality and the economic freedom score of Asian countries in our research as proxies for economic structure. Therefore, this research will seek to analyze the correlation between China's OFDI and the economic characteristics of the host Asian nations so as to fill the gap in the literature.

Research Objectives

The research questions for this study are as follows: This research seeks to establish the extent to which the following factors affect China's OFDI: institutional environment of the Asian countries; and the economic environment of the Asian countries. It targets, in particular, how institutional quality and economic conditions affect those countries. Minh C. H. (2019) explains that institutional quality plays an essential role in understanding how FDI is distributed across different locations. Likewise, Bailey N. (2018) post that political stability, governance and the rule of law influence foreign direct investment while change brokers can shift these factors. Therefore, this research endeavors to fill this gap by discussing the relationship between China's OFDI and the Asian host economies. This research will seek to explore the influence of institutional and economic environment on China's OFDI in Asian countries; Institution quality and economic structure of the Asian countries. As stated by Minh C. H. (2019), institutional quality one of the

factors that make FDI to flow in different direction within areas. In addition, Bailey N. (2018) said that there is a political security, republic and rule of law that attract FDI, but external factors can alter the outcomes. While corruption, high tax rates, and cultural distance discourage it, external factors such as growth, location, and competitiveness also have different effects on the strength and importance of the link. Bommadevara R. & Sakharkar A. (2021) suggested that FDI inflows depend on the quality of institutions, the unpredictability of economic strategy, and the strength of the economy as a whole.

Research Questions

1. What is the motivation behind China's outward foreign direct investment in Asian countries?
2. How important are institutional antecedents of host countries in determining investment strategies of Chinese firms in Asia?
3. How does the economic structure of Asian countries affect China's outward foreign direct investment?

Significance of the Study

The economic structure of nations is one of the key drivers of FDI inflows, which affect their economic growth and cause spillover effects. Given the limited research that examines the relationship between economic structure and China's outward foreign direct investment, this work will provide an in-depth consideration by taking institutional quality and economic freedom, which are measured by the Heritage Index, as proxies for economic structure in Asian countries. This will give a useful perception of economic structure in Asian countries. However, its potential effect on China's outward foreign direct investment is unexplored. The findings of our results will provide useful policy implications for policymakers and the authority of nations to review their economic structure policies and improve their economic structures to attract more foreign direct investment inflows.

Literature Review

This literature review examines FDI and economic structure. Due to its potential to boost economic growth and development, economists and policymakers have focused on FDI in recent decades. Foreign companies or individuals invest in local companies to create long-term relationships and obtain control. This literature review critically examines the effects of FDI on economic development, employment, and structural change. Government policies on FDI and economic structure will also be examined. The review contributes to the discussion on FDI's economic development advantages and drawbacks. Zhang K. H. & Song S. (2001) conducted research from 1986-1997, using data from the province level and the generalized least squares (GLS) estimate approach to examine the influence of foreign direct investment on Chinese exports. The study's empirical findings reveal that a rise in inbound investment from abroad has a considerable and favorable effect on the province level of manufacturing exports in China. Anghel B. (2005) investigated the impact of quality institutions on foreign direct investment (FDI), using cross-sectional data from 1996 to 2000 and a basic least squares econometric estimate approach. He believed that nations with highly rated governments and quality institutions would be more appealing to FDI. The study's findings revealed that the strength of institutions in various nations has a significant impact on foreign direct investment in a variety of ways. Ali S. & Guo W. (2005) discussed antecedents of FDI and presented a thorough literature on FDI and its possibly driving forces in China. They also used borrowing from 22 Chinese firms to uncover what these firms perceived as the key drivers to FDI. The research revealed that the market size mattered most to FDI, especially to companies in the United States while the cheap labor was the main influential factor to local export oriented Asian firms. The authors ended the paper with management implications for organizations seeking to capitalize on the opportunities offered in the China

context. Busse M. & Hefeker C. (2007) studied the impact of political risk, institutions and FDI in 83 developing countries during 1984– 2003 by adopting the generalized method of movement estimation. It was established from the study, government security, internal and external conflict of interest, bribery, racial issues, order and stability, politic and bureaucracy quality all explain foreign investment flows. Cleaver and Söderberg elect a random effect Tobit model for the purpose of analyzing the political system impact of FDI from developed to emergent countries using data from 1992 to 2004. From the presented results of the research analysis, the positive influence of democracy was identified regarding the volume and frequency of FDI from developed emerging source countries. Mengistu A. A. & Adhikary B. K. (2011) utilized a fixed effect model to analyze panel data for 15 Asian countries from 1996 to 2007, taking into account heteroscedasticity-corrected standard errors. This study sought to assess how six dimensions of good governance affected the FDI inflows. The analysis showed that there was evidence that political stability, government efficiency, rule of law and control of corruption influenced FDI to a large extent. Moreover, the ranking on the voice responsibility and the level of regulations were not closely linked with FDI inflows. This means that, any country that improves its general governance conditions is likely to receive more FDI regardless the specific areas of bad governance. Kaur M., Yadav S. S., & Gautam V. employed pooled ordinary least square econometric estimations to assess the impact of monetary scheme improvement on FDI in relation to BRIC nations during 1991–2010. By regressing data for 134 countries, the study finds that stock market capitalization and the size of the banking sector are positively related to FDI while the amount of domestic credit provided by the banking sector is inversely related. It also compared the growth of the banking sector to China's FDI that has not found in cross-country studies before. Dellis et al. (2017) explored in their paper how the economic systems of developed countries impound FDI flows. The authors applied newly developed methods for FDI data extraction that exclude statistical errors and determine the condition of a country's economic systems. The result suggests that there is causality between the robustness of a nation's economic show cause and the amount of FDI that is channeled to this country. In Shan, Lin, Li, and Zeng (2018) review, did a study to determine the impact of natural resources, and market size and five institutional factors such as, 'voice and accountability', 'political stability', 'absence of violence/terrorism', 'regulatory quality', 'rule of law 'and 'control of corruption 'on Chinese FDI in Africa. The study conducted a regression analysis of the cross-sectional time-series data of 22 countries for the year 2008-2014. The results highlighted the fact that market size dominated natural resources in the determination of Chinese investments. However, among the institutional factors used; only voice and accountability revealed positive influence, political stability and regulatory quality were negative while rule of law and control of corruption wielded no influence at all. Sabir et al. (2019) analyzed the link between institutional quality and FDI for low, lower-middle, upper-middle, and high human development countries. Based on the results, they revealed that institutional quality has a direct impact on FDI flows and the results affirm that institutional quality has a positive impact on FDI income and high income countries. With respect to developed nations, indicators like income per capita, trade coefficients, the proportion of agricultural GDP and development of infrastructure were positively influencing the intensity of FDI. However, these variables had a different impact for developed countries mitigated by the level of foreign currency, GDP per capita, the farming industry as captured by agricultural portion of GDP and inflation index. In general, the analysis of the results revealed that the role of institutional quality in FDI is higher for industrialized states rather than developing ones. Rafat M. & Farahani M. (2019) used the secondary data set of time series from 1985 to 2016 to determine the impact of political risk on FDI in Iran. The research used the International Country Risk Guide (ICRG) to provide different financial, economic and political ratios as well as ascertain 12 different political risks. To test the impact of the above mentioned political risk of the country of origin on FDI flows to Iran, a two stage least squares estimator (2SLS) was used. The analysis revealed that external conflict, racial

stress, social factors, investment portfolios and religious conflict had greatest influence on FDI in Iran. In order to test the research hypotheses, Economou F. (2019) sought to investigate not only the effect of several traditional FDI indicators alongside the effect of economic freedom on FDI in four countries in South Europe including Greece, Italy, Portugal, Spain for the period 1996- 2017. Consequently, the result shows a positive correlation with the market size in gross capital creation, while there is a negative correlation with the unit labor cost. Property rights, government integrity, monetary freedom, and financial freedom have all been shown to have significant beneficial effects on FDI. Economic independence is consistently demonstrated to have a favorable influence on FDI. Moon C. (2019) conducted a study to examine the FDI in autocratic countries using a cross-sectional design for the period of 1970 to 2008, covering 86 authoritarian countries. The findings of the study show that non-democratic countries with democratic political institutions, such as elected legislatures, attract more FDI inflow than others due to their ability to reduce transaction costs and act as veto players. The effects of these institutions are conditionally modified by the quality of market-protecting institutions. Alam, et al., 2019) identified the movements and factors affecting China OFDI to Asia. As for method of the investigation, econometric analysis was applied using 3 datasets which included 27 Asian countries and regions where Chinese OFDI is directed, 26 countries conforming to the 1st dataset and being the 12 main investment destinations for China. It was and found that the rate of inflation, export, and import, corruption, infrastructures as well as geographical distance highly influenced OFDI in China in the region. Analyzing the impact of foreign capital mobilized for economic development, Adegboye F. B. et al. (2020) used fixed and random effect regression techniques identifying the influence of the quality of institutions for the development of SSA sub-region of Africa. Sample data collected for this study was pooled data of 30 SSA countries over the period 2000 to 2018. This paper demonstrated that out of the various determinants that affect FDI inflows to developing sub-Saharan African countries include institutions.

Data and Methodology

This methodology and data chapter outlines the econometric procedures employed and the nature of the modal specification in answering the research question concerning the relationship between China's OFDI and the economic structure of Asian countries. Then, afterward, we put our research together with the modal specification and the description of the source of the data, and the explanation of the factors that attract Chinese outward foreign direct investment in Asian countries. The statistics used in the research were extracted from different official websites that provide public access. The data on China's outward foreign direct investment are extracted from the Ministry of Commerce of the People's Republic of China for 2003 to 2021.

Modal specification:

Based on (Alam Iqbal, et al. 2019) study and they specified their modal to check China's outward foreign direct investment (FDI) determinates in Asian countries the modal is follow;

$$LnOFDI = \alpha_0 + \beta_1 LnLFR_{it} + \beta_2 lnLIR_{it} + \beta_3 lnLMP + \beta_4 lnEXP_{it} + \beta_5\, lnIMO_{it} + \beta_6 lnPOL_{it} + \beta_7 lnCOR_{it} + \beta_8 lnNFR_{it} + \beta_9 lnDIS_{it} + \mu_{it} \quad (1)$$

Modalities 1 include all the determinants of outward FDI by China in Asian countries. Based on the above modal, I specified the modal that incorporates the drivers of China's outward foreign direct investment in Asian countries, but we also include the institutional quality and economic structure of Asian countries, which were not part of the previous study.

The modal which we will be used for the estimation of its functional form is below:

$$OFDI = f(tradeopeness, capital\ formation, natural\ resource, labor\ cost, RGDP, GDPGR, institutional\ quality\ index, heritage\ index) \quad (2)$$

Regression model:

For the econometric estimation, we convert the functional form of the modal into a regression modal which is below:

$$OFDI = \beta_O + \beta_1 TO_{it} + \beta_2 LC_{it} + \beta_3 NR_{it} + \beta_4 FCF_{it} + \beta_5 GDP_{it} + \beta_6 ER_{it} + \beta_7 IQ_{it} + \beta_8 EF_{it} + \mu_{it} \quad (3)$$

In equation 3 regressions modal β_0 is the intercept of the modal, which is constant and shows that if there is no economic structure, there will be some FDI inflows μ is the error term, which shows the effect of the outlier and variable that's not included in the modal. The difference among the variable's values and the causes of the outlier effect in the modal we take the natural log of the regression modal to reduce the effect of the outlier and make the values of different variables uniform, which is below:

$$OFDI = \beta_0 + \beta_1 lnTO_{it} + \beta_2 lnLC_{it} + \beta_3 lnLN_{it} + \beta_4 lnFCF_{it} + \beta_5 lnGDP_{it} + \beta_6 lnER_{it} + \beta_7 lnIQ_{it} + \beta_8 lnES_{it} + \mu_{it} \quad (4)$$

In Equation 4,

Ln OFDI is China's outward FDI in Asian countries

lnTO is the trade openness in the host countries (trade % of GDP)

lnLC is labor cost which is the average wage of host countries

lnCF is fixed capital formation ……

lnER is the real exchange rate of the host countries against $ the US

lnNR is the natural reserve is the total natural reserve rent (% GDP) of the host nations.

lnGDP denotes the GDP of the countries (constant=2015)

lnIQ is the institutional quality that has which have six different indices

lnEF is the economic freedom index which has 12 sub-indices used as a proxy for economic structure

Methodology

Since panel data methods and procedures are often used in social science research, I relied on them to carry out continuous data analysis. In the panel data approach, many aspects of a country, organization, or group of people are investigated at various points in time and from various perspectives. Panel data methods allow for a large number of data points and provide more accuracy. This research employs three different methods: (1) pooled regression, (2) fixed effect, and (3) random effect. We apply the fixed effect method because we have enough data from 2002-2021, covering 34 entities, making it more suitable than the random effect method.

Variables and Data Description

- **China's OFDI**: The stock of China's outward FDI, measured by stock, not flows.
- **Trade Openness**: Measured as trade % of GDP.
- **GDP**: Gross domestic product, which affects the ability to attract FDI.
- **Exchange Rate**: Measured as the real exchange rate against the US dollar.
- **Natural Resources**: The total natural resource rent (% of GDP) of host nations.
- **Capital Formation**: Gross fixed capital formation, important for FDI attraction.
- **Labor Cost**: The wages and benefits paid to employees, influencing FDI inflows.
- **Institutional Quality**: Measured by World Bank's six-indicator composite index.
- **Heritage Index**: A proxy for economic structure, comprising various sub-indices related to economic freedom.

Descriptive Statistics

Table 4.1 shows the figures that describe the study data set. Descriptive statistics tell us about the structure of the material and how it is spread out. The magnitude of the standard deviation suggests

that these factors should be used in regressions. The descriptive statistics indicate the related data set's mean value, standard deviation, minimum value, and maximum value.

Table 4.1 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Ln China's FDI	624	5.635	2.985	-4.605	14.254
Ln GDPC 2015	624	25.608	1.563	22.101	29.153
Ln trade openness	615	103.628	79.205	21.326	442.62
Ln Ex rate	627	3.55	3.315	-1.314	10.645
Ln labor cost	627	4.082	.459	2.737	4.601
Ln N resources	627	.44	3.081	-8.684	4.079
Ln c of corruption	627	1.524	.369	.591	2.262
Ln Reg quality~.	627	1.582	.353	.432	2.252
Ln Rule of law	627	1.538	.36	.541	2.168
Ln political stability	621	1.36	.596	-3.392	2.108
Ln property rights	626	3.761	.561	1.609	4.589
Ln labor freedom	560	4.15	.272	2.996	4.594
Ln tax burden	626	4.422	.135	3.965	4.605
Ln trade freedom	624	4.299	.184	3.091	4.554
Ln business freedom	626	4.194	.23	3.401	4.605

Correlation:

Table 4.2 shows the results of the pair-wise correlations for the data that was utilized for the estimation. The most powerful relationship between regulatory quality and the rule of law is .0875 significant at 5%. Although the matrix of correlations reveals a strong relationship between some variables, there is no such relationship between the variables, which makes it challenging to estimate because of multicollinearity.

Table 4.2 Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Ln China's FDI	1.000							
Ln GDPC 2015	0.425	1.000						
Ln trade openness	0.348	-0.096	1.000					
Ln Ex rate	0.248	0.109	-0.271	1.000				
Ln labor cost	0.057	0.095	0.320	-0.482	1.000			
Ln N resources	-0.109	-0.163	-0.364	-0.025	-0.116	1.000		
Ln c of corruption	0.230	0.409	0.332	-0.319	0.397	-0.372	1.000	
Ln Reg quality~.	0.175	0.260	0.516	-0.522	0.547	-0.446	0.710	1.000
Ln Rule of law	0.188	0.429	0.440	-0.447	0.538	-0.407	0.769	0.875
Ln political stability	0.225	0.002	0.395	-0.199	0.400	0.016	0.254	0.413
Ln property rights	0.194	0.264	0.359	-0.404	0.420	-0.391	0.637	0.791
Ln labor freedom	0.182	-0.026	0.482	-0.166	0.305	-0.071	0.294	0.441
Ln tax burden	0.031	-0.320	0.285	-0.316	0.331	0.311	-0.092	-0.008
Ln trade freedom	0.170	-0.008	0.433	-0.410	0.566	-0.247	0.348	0.629
Ln business freedom	0.314	0.134	0.454	-0.132	0.331	-0.314	0.481	0.554

Matrix of correlations

Variables	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Ln Rule of law	1.000						
Ln political stability	0.418	1.000					
Ln property rights	0.777	0.289	1.000				
Ln labor freedom	0.432	0.363	0.433	1.000			
Ln tax burden	-0.030	0.225	-0.055	0.134	1.000		
Ln trade freedom	0.437	0.379	0.458	0.273	0.148	1.000	
Ln business freedom	0.573	0.299	0.619	0.603	-0.048	0.311	1.000

Variance Inflation Factor

The variance inflation test (VIF) for the chosen data set is shown in Table 4.3. In the table above, the correlation test is part of the variance inflation test. The variance inflation test finds out if there is a relationship between two independent variables. The variance inflation factor is 1/tolerance, and it is always greater than or equal to 1. According to (Neter, Wasserman, and Kutner 1985), the minimum acceptable level for multicollinearity is 10, and multicollinearity between independent variables is when the value of the VIF is more than 10. The results of the variance inflation test are presented in Table 4.3. The highest value is 8.11, which is lower compared to the minimum allowed level. This indicates that our regression results are not affected by the problem of multicollinearity between the variables, which can happen in the mode. In addition, cluster-standardized errors at the country level are used to get around the fact that our static analysis might show a link between two or more sets of data. These methods limit how many mistakes and biases can happen in our models (Mottaleb and Kalirajan, 2010).

Variance inflation factor

	VIF	1/VIF
Ln Reg quality~.	8.11	.123
Ln Rule of law	7.999	.125
Ln property rights	3.473	.288
Ln c of corruption	2.629	.38
Ln business freedom	2.368	.422
Ln labor freedom	2.304	.434
Ln trade openness	2.276	.439
Ln labor cost	2.194	.456
Ln Ex rate	2.16	.463
Ln N resources	2.008	.498
Ln labor freedom	1.97	.508
Ln GDPC 2015	1.831	.546
Ln tax burden	1.804	.554
Ln political stability	1.614	.619
Mean VIF	3.053	.

The selection period for data is 2003 to 2021 is useful and justified for the analysis. So china outward foreign direct investment rapidly increasing According to Milelli and Sindzingre (2013), the increase in Chinese outward foreign direct investment (OFDI) started at the turn of the century, shortly after China joined the World Trade Organization (WTO) in December 2001. This increase was driven by the growth of the Chinese economy. And such a trend has continued till now, therefore the analysis of China's outward foreign direct investment (OFDI) in Asian countries is

meaningful for the selected period. Because the data comprises both entities and periods, there is minimal fluctuation in the independent variables that are included in the modal for the punitive analysis over time. It is possible to determine whether or not the modal has fixed or random effects by using the specification test developed by Hausman (1978). According to the particular test with a P value of 0.1, the random effect is better than the fixed effect modal, which suggests that the individual effects are not linked with the independent factors. The pooled ordinary least squares (POLS) method assumes that there is homogeneity across all entities. The findings of the pooled ordinary least square method are presented in Table 4.5 for comparison with the results of the methods that use fixed and random effects.

Table 4 Hausman test

Coefficient	
Chi-square test value	14
P. value	0.0000

Linear Regression

Ln China's FDI	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Ln GDPC 2015	.978	.072	13.59	0	.837	1.12	***
Ln trade openness	.017	.002	10.68	0	.014	.02	***
Ln Ex rate	.276	.036	7.57	0	.204	.348	***
Ln labor cost	-.26	.274	-0.95	.342	-.799	.278	
Ln N resources	.151	.039	3.91	0	.075	.228	***
Ln c of corruption	.699	.369	1.89	.059	-.026	1.425	*
Ln Reg quality	.128	.671	0.19	.849	-1.191	1.446	
Ln Rule of law	-3.288	.662	-4.97	0	-4.588	-1.988	***
Ln political stability	.547	.175	3.12	.002	.203	.891	***
Ln property rights	.851	.273	3.12	.002	.315	1.388	***
Ln labor freedom	-.89	.449	-1.98	.048	-1.772	-.008	**
Ln tax burden	1.134	.862	1.32	.189	-.56	2.828	
Ln trade freedom	2.576	.828	3.11	.002	.948	4.203	***
Ln business freedom	2.308	.574	4.02	0	1.181	3.435	***
Constant	-43.176	5.953	-7.25	0	-54.87	-31.481	***

Mean dependent var	5.994	SD dependent var	2.798
R-squared	0.532	Number of obs	540
F-test	42.692	Prob > F	0.000
Akaike crit. (AIC)	2262.259	Bayesian crit. (BIC)	2326.633

**** p<.01, ** p<.05, * p<.1*

From Table 4 we assumed that fixed effect rather than a random effect based on a p-value which is 0.00 in the Hausman test. This particular p-value of 0.0 indicates that fixed effects are preferable to the random-effect alternative, fixed effect modal control for all time-invariant between the individuals, so the estimated coefficients of the fixed-effects modal cannot be effect biased because the omitted time-irrelevant characteristics. one side effect of fixed effect modal is that they cannot be used to investigate time-invariant causes of dependent variables. Substantively, fixed effect models are designed to study the causes of changes within an entity. A time-invariant characteristic cannot cause such changes because constant for each entity (Kohler, Ulrich, et al, data analysis using stata 2nd ed., p.245) shown in **table 4.6** If there is a 1-unit increase in the host country's ln

GDP constant, it induces a 2.533 percent increase in FDI. a unit surge in ln trade openness and ln exchange rate its causes to increase the coefficients of ln OFDI .001 and 0.384%, respectively, into the host countries, and when there is a Unit increase in ln labor costs, it will cause a 1.628% increase in FDI inflows. Among the proxies used for economic structure from the ln intuitions quality, ln control of corruption and ln rule of law out of four are negatively related to China's OFDI in Asian countries, and ln political stability and ln regulatory quality are positively related to China's outward foreign direct investment, so if there is a 1 unit increase in the control of corruption and rule of law, it will induce to decrease the coefficients, China's ODFI respectively, of -2.964 and -0.975, and if there is a unit increase in political stability and regulatory quality, it will increase China's outward FDI by 0.278 and 0.759, respectively. And the heritage index, which is used as a proxy for economic structure in Asian countries, includes some pillars to analyze the impacts of China's outward foreign direct investment in the host countries. If there is a 1-unit increase in ln property rights, it will cause an increase of 0.147 units in China's ln ODFI inflows, and if there is a 1-unit increase in ln trade freedom, ln business freedom, and ln tax burden, there will be increases of 2.43, 1.838, and 5.421, respectively, in China's ln outward FDI in Asian countries. and ln labor freedom have negatively affected China's OFDI in Asian countries, and if there is a 1% increase in ln labor freedom, it will cause a decrease of -.189% in China's outward FDI inflows in Asian countries. The overall R-square of the modal is 0.278 which means that the dependent variables of the modal 0.278 are explained by explanatory variables.

Result of Fixed Effect Modal

logchinafdi	Coef.	t.Err.	t-value	p-value	[95% Conf	terval]	Sig
Ln GDPC 2015	2.533	.202	12.51	0	2.136	2.93	***
Ln trade openness	.001	.003	0.53	.597	-.004	.007	
Ln Ex rate	.384	.1	3.84	0	.188	.58	***
Ln labor cost	1.628	.608	2.68	.007	.436	2.82	***
Ln N resources	-.119	.064	-1.86	.063	-.245	.006	*
Ln c of corruption	-2.964	.713	-4.16	0	-4.362	-1.566	***
Ln Reg quality	.759	.769	0.99	.323	-.747	2.266	
Ln Rule of law	-.975	.908	-1.07	.283	-2.755	.806	
Ln political stability	.278	.177	1.57	.117	-.069	.625	
Ln property rights	.147	.205	0.72	.471	-.253	.548	
Ln labor freedom	-.189	.442	-0.43	.669	-1.056	.678	
Ln tax burden	-5.421	1.196	4.53	0	3.077	7.765	***
Ln trade freedom	2.43	.595	4.08	0	1.264	3.597	***
Ln business freedom	1.838	.488	3.77	0	.882	2.794	***
Constant	-104.659	7.008	-14.93	0	-118.394	-90.923	***

Mean dependent var	5.994	SD dependent var	2.798
Overall r-squared	0.278	Number of Obs	540
Chi-square	565.652	Prob > chi2	0.000
R-squared within	0.597	R-squared between	0.272

**** p<.01, ** p<.05, * p<.1*

Conclusion

Another important factor indicating that FDI influences the development of countries and their ability to create capital is a milestone in the economic civilizing mission. Therefore, by use of FDI and trade, this new economy has established itself as an influential player in the international economy system. Analyzing outward foreign direct investment (OFDI) has been the broad objective of this study, specifically for China's investment in 34 countries in Asia from 2003 to

2021 with consideration to institutional quality and economic structure. The empirical results in this research show there are several important variables that affect China's FDI in Asian countries. Findings of the study indicate that the level of China's OFDI is influenced by economic factors such as; GDP, labor costs, trade openness, and exchange rates. This paper uses the Data of the past ten years to establish a model that shows as the GDP and trade openness increases so does the value of FDI in China. Besides, natural resource has a reverse effect on FDI while the exchange rate and labor cost has positive effect on FDI inflow. While institutional quality control of corruption, and rule of law have a negative effect on OFDI of China, political stability and regulatory quality case a positive influence. The findings show, the existence of economic environment and governance infrastructure index including property rights and business freedom influences Chinese investments.

Policy Implications

Improving Institutional Quality: The result also indicates that the Asian countries that seek the Chinese OFDI should strengthen its institutional quality in terms of political stability, regulation quality, and governance. This include areas in corruption control and enhancement of the rule of law.

Economic Structure Enhancement: Gross Domestic Product should be enhanced and the Governments of respective countries should strive to make exchange rates stable and the cost of labor affordable. All these factors play a role in the ability to attract Chinese investments.

Focus on Economic Freedom: Improving economic liberty, especially the trade freedom, property rights and business freedom definitely prophesizes a conducive environment for Chinese investors. Three areas that should of concern to the policymakers include; a) liberalization of trade policies and b) Investor rights.

Leverage Natural Resources Carefully: Although natural resources do not benefit China's FDI inflow, other counties should follow the management of their resources effectively without hoping to get FDI through this resource. But, the development of a sound and diverse economy will create environment for stable inflow of foreign investment.

Investment Incentives: This paper has established that countries can lure more Chinese OFDI through offering of tax incentives for investment as well as the establishment of fair investment climates. However, it is pertinent to also provide these incentives through efficient regulatory measures that are not prejudicial to long term economic stability.

Therefore, host countries for Chinese OFDI should enhance on their economic environment, institutional quality, and governance in addressing globalization calls to enhance economic freedom and stimulating GDP. That way, they will be able to establish the conditions that would make it easier for China to invest.

List of the Countries

Serial No	Country name	Country name
1	Azerbaijan	Lebanon
2	Bahrain	Malaysia
3	Bangladesh	Magnolia
4	Kuwait	Nepal
5	Cambodia	Oman
6	Hong Kong	Pakistan
7	India	Phosphine
8	Indonesia	Qatar
10	Iran	Saudi Arabia
11	Israel	Singapore
12	Japan	Sri Lanka
13	Jordan	Thailand
14	Kazakhstan	Turkey
15	Kirghizstan	UAE
16	Korea rep	Uzbekistan
17	Cyprus	Vietnam

References:

Ali, S., & Guo, W. (2005). Determinants of FDI in China. *Journal of Global Business and Technology*, *1*(2), 21-33.

Alam, I. B., Sami, S., & Turay, A. (2019). Determinants of China's outward foreign direct investment in Asia: A panel data analysis. *Economic and Political Studies*, *7*(1), 66-86.

Anghel, B. (2005). Do institutions affect foreign direct investment? *International Doctorate in Economic Analysis*, 40.

Bailey, N. (2018). Exploring the relationship between institutional factors and FDI attractiveness: A meta-analytic review. *International Business Review, 27*(1), 139-148.

Bommadevara, R., & Sakharkar, A. (2021). Do good institutions and economic uncertainty matter to foreign direct investment? *Asian Economic and Financial Review, 11*(6), 471-487.

Busse, M., & Hefeker, C. (2007). Political risk, institutions, and foreign direct investment. *European Journal of Political Economy, 23*(2), 397-415.

Constantine, C. (2017). Economic structures, institutions, and economic performance. *Journal of Economic Structures, 6*(1), 1-18.

Dellis, K., Sondermann, D., & Vansteenkiste, I. (2017). Determinants of FDI inflows in advanced economies: Does the quality of economic structures matter? *European Central Bank Working Paper Series*.

Economou, F. (2019). Economic freedom and asymmetric crisis effects on FDI inflows: The case of four South European economies. *Research in International Business and Finance, 49*, 114-126.

Gangi, Y. A., & Abdulrazak, R. S. (2012). The impact of governance on FDI flows to African countries. *World Journal of Entrepreneurship, Management, and Sustainable Development*.

Guerin, S. S., & Manzocchi, S. (2009). The political regime and FDI from advanced to emerging countries. *Review of World Economics, 145*, 75-91.

Kaur, M., Yadav, S. S., & Gautam, V. (2013). Financial system development and foreign direct investment: A panel data study for BRIC countries. *Global Business Review, 14*(4), 729-742.

Mengistu, A. A., & Adhikary, B. K. (2011). Does good governance matter for FDI inflows? Evidence from Asian economies. *Asia Pacific Business Review, 17*(3), 281-299.

Moon, C. (2019). Political institutions and FDI inflows in autocratic countries. *Democratization, 26*(7), 1256-1277.

Rafat, M., & Farahani, M. (2019). Political risk and foreign direct investment in Iran: A time-series analysis. *Journal of International Economics*.

Ross, A. G., Omar, M., Xu, A., & Pandey, S. (2019). The impact of institutional quality on Chinese foreign direct investment in Africa. *Local Economy, 34*(6), 572-588.

Sabir, S., Rafique, A., & Abbas, K. (2019). Institutions and FDI: Evidence from developed and developing countries. *Financial Innovation, 5*(1), 1-20.

Shan, S., Lin, Z., Li, Y., & Zeng, Y. (2018). Attracting Chinese FDI in Africa: The role of natural resources, market size, and institutional quality. *Critical Perspectives on International Business*.

Ullah, I., & Khan, M. A. (2017). Institutional quality and foreign direct investment inflows: Evidence from Asian countries. *Journal of Economic Studies*.

Yang, J. H., Wang, W., Wang, K. L., & Yeh, C. Y. (2018). Capital intensity, natural resources, and institutional risk preferences in Chinese outward foreign direct investment. *International Review of Economics & Finance, 55*, 259-272.

Zhang, K. H., & Song, S. (2001). Promoting exports: The role of inward FDI in China. *China Economic Review, 11*(4), 385-396.