

**CHINESE OUTWARD FOREIGN DIRECT INVESTMENT:
A NEW CHALLENGE FOR INSTITUTIONAL THEORY**

Abstract

The study of emerging-market multinationals is becoming one of the most promising research topics among the literature on international business. With institutional theory particularly suited to analyzing the international expansion of these companies, our paper uses this approach to analyze the influence that political risk and cultural distance have on the location patterns of 29 large Chinese multinationals in 52 countries. Our results show certain characteristics that differ from the conventional wisdom of multinational companies. A high political risk in the host country does not discourage Chinese multinationals. However, from a more conventional point of view, the presence of overseas Chinese in the host country, firm size and a higher volume of Chinese exports to that country are positively associated with Chinese outward foreign direct investment (FDI).

Keywords

Chinese multinationals; political risk; cultural distance; outward FDI.

INTRODUCTION

That the world economy's centre of gravity is shifting to Asia-Pacific – and particularly to China – is undeniable. According to data from 2009, China is already the world's third economy in terms of GDP, the first-largest exporter, the second-largest importer and the second-largest recipient of foreign investments. Many Chinese companies have leapt at the chance in recent years to make major investments in other countries. As a result, Chinese outward FDI multiplied by four between 2005 and 2009, accounting for 4.4% of the world's total (UNCTAD, 2010). It is also estimated that by the end of 2008 there were around 12,000 businesses with Chinese capital in 174 countries (MOFCOM, 2009a).

The search for resources (particularly natural resources), markets (in many cases, trying to avoid export restrictions) or strategic assets (particularly advanced technology, managerial know-how or internationally recognized commercial brands) are the main reasons behind such spectacular growth of Chinese outward FDI (Deng, 2004; Hong & Sun, 2006; Wong & Chan, 2003; Wu & Sia, 2002). Clearly, because China is itself a low-cost production base, cost minimization is not a major motivation of Chinese FDI overseas (Cheng & Ma, 2007). It is helped by the huge foreign currency reserves that have accumulated from exports, the knowledge acquired by co-operating with foreign companies in China and, of course, by the Chinese government, which sees the international expansion of Chinese companies as a key element to ensuring the country's continued economic growth (Child & Rodrigues, 2005; Hong & Sun, 2006; Zhang & Van den Bulcke, 1996).

The reasons that the Chinese government encourages outward FDI are (Shoham & Rosenboim, 2009): resource exploration; projects that can promote Chinese exports; overseas research and development centers; mergers and acquisitions that can enhance the international competitiveness of Chinese enterprises and accelerate their entry into foreign markets; and encouraging international growth through outward FDI is considered consistent with China's

trade surplus and with the positive gap between savings and investments that characterizes the national accounts.

Despite the fact that this boom in Chinese outward FDI is relatively recent, operations such as Lenovo acquiring the PC division of IBM, the Nanjing Automobile group buying the British manufacturer MG Rover, and the Industrial and Commercial Bank of China (ICBC) buying stakes in the Standard Bank of South Africa, have brought Chinese multinationals to the attention of economists, politicians and observers the world over.

Research into international business has not been unaffected by this phenomenon. Following the pioneering works that appeared in the second half of the 1990s (Cai, 1999; Walters & Zhu, 1995; Young, Huang & McDermott, 1996; Zhang & Van den Bulcke, 1996), by the 21st century this had become a well-established field of study (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; Chen & Young, 2010; Child & Rodrigues, 2005; Cui & Jiang, 2009a, 2009b, 2010; Deng, 2009; Dunning, 2006; Lu, Liu & Wang, 2010; Mathews, 2006; Pangarkar & Yuan, 2009; Xie, 2010; Yuan & Pangarkar, 2010).

After an initial few years when eminently descriptive studies predominated, recent papers have sought to explore further into certain specific topics, such as the factors that determine Chinese outward FDI, entry mode choice, and the extent to which traditional theoretical frameworks can be said to apply.

However, there are still certain gaps in the literature, and more work is needed to extend our knowledge of Chinese multinationals. In particular, we still know very little about the factors that influence key strategic decisions in the internationalization process, such as the choice of host countries or entry modes. Furthermore, with very few exceptions (Cui & Jiang, 2009a; Lu et al., 2010; Pangarkar & Yuan, 2009; Xie, 2010; Yuan & Pangarkar, 2010), much of the research up to now has been based on a small number of specific cases, or on aggregate statistical data. More empirical studies are needed, therefore, using firm-level data

based on wider samples that throw light on the factors affecting strategic choices made by Chinese multinationals.

In the past few years, the institutional perspective has become one of the most suitable theoretical frameworks for analyzing strategic decisions made by companies from emerging or transition economies (Peng, Wang, & Jiang, 2008). Institutions are more than just background conditions. Institutional theory makes it possible to establish solid grounds to explain the internationalization of companies from emerging economies entering other emerging economies and the markets of more developed countries alike (Wright, Filatotchev, Hoskisson, & Peng, 2005). In the first case, it is more likely that they are seeking to exploit their assets, which may be more easily applicable in an environment with similar institutional characteristics to those found in the country of origin. Indeed, when competing in these emerging countries, companies from emerging economies may have lower transaction and coordination costs than companies from developed economies do. On the other hand, companies from emerging economies tend to enter developed economies looking to explore assets in order to acquire new technological capabilities that will allow them to be more competitive on the global market.

Institutional differences are particularly important for multinationals operating in more than one institutional context (Meyer, Estrin, Bhaumik, & Peng, 2009). The formal and informal rules affect not only how a company chooses to enter an economy, but the very decision on whether or not to set up in a particular country. Institutional factors play an increasingly important role in the location decisions (Zheng, 2009). According to institutional theory, companies make their strategic choices based on interaction between institutions and the organization itself, and attempt to obtain institutional legitimacy in terms of the host country's rules and regulations (Cui & Jiang, 2010). Institutional factors alter the cost of

doing business in one nation rather than another, which affects every aspect of the multinational's behavior, including location choice (Henisz & Swaminathan, 2008).

Chinese multinationals, like any others, have to meet the institutional requirements of the host country (Rui & Yip, 2008). However, in certain countries they face greater institutional barriers than companies from other countries have to overcome, due to reluctance stemming from the state ownership of many Chinese investment companies, and the possible search for political objectives rather than commercial ones (Globerman & Shapiro, 2009).

The objective of this paper, therefore, is to analyze the influence that various institutional factors have on one of the most important strategic decisions that Chinese multinationals have to make in their internationalization process: host country choice. More precisely, we focus on two of the most researched host country institutional factors: political risk and cultural distance. Using a sample of the largest Chinese companies, we study how these factors affect their FDI location decisions.

The rest of the paper is structured as follows. Firstly, we establish a series of hypotheses regarding the influence of previously mentioned institutional factors in the host country on the location decisions made by Chinese multinationals. We then test these hypotheses with firm-level data from a sample of large Chinese companies listed on the Fortune Global 500. After a discussion of the results, we conclude by suggesting possible avenues for future research on this topic.

THEORY AND HYPOTHESES

Political risk. Host country political risk can be considered alongside any other kind of external influence that affects the company's operations, whether that means the possibility of expropriation or nationalization of the investment, or other government actions or changes in

the political and social situation that could have a negative effect on economic activity (Kobrin, 1979; Robock, 1971; Simon, 1984).

The differences in political risk between countries affect the stability of their markets, which affects foreign companies aiming to do business there. The high degree of uncertainty associated with foreign ownership or increased asset exposure in the event of eventual expropriation are some of the factors that can hinder FDI decisions (Brouthers, 2002; Pak & Park, 2004). As a result, the conventional wisdom suggests that higher political risk will be negatively related to FDI, given that multinational companies will be more reluctant to invest in countries that are a high risk or have an unstable environment.

However, we did find empirical evidence suggesting that the risks of the host country do not affect Chinese multinationals in a conventional way. Cui and Jiang (2009a) find that country risk does not affect how Chinese multinationals commit FDI resources. Buckley et al. (2007) do not confirm that Chinese outward FDI is negatively associated with high levels of political risk in the host country. Bunyaratavej and Hahn (2007) and Malhotra and Zhu (2009) even find that Chinese multinationals tend to invest in countries with higher levels of risk.

The very idiosyncrasy of China's own institutional framework may provide some arguments for these findings (Buckley et al., 2007). Because of imperfections in the Chinese capital market, the cost of capital is very low for state-owned Chinese companies. Furthermore, because they are conditioned by the institutional influences of the Chinese government, they may not be behaving purely as profit maximizers. Moreover, an important part of the Chinese outward FDI has been directed at countries with which China has close political and ideological ties, many of which have a high political risk. As a result, we propose that:

Hypothesis 1: Host country political risk is not associated with the location of Chinese outward FDI.

Cultural distance. Cultural distance refers to possible existing differences in terms of how individuals from different countries observe certain behaviors, which will affect the extent to which working practices and methods can be transferred from one country to another (Hofstede, 1980, 1991). It is another traditional factor in the literature on entry decisions (Chen & Hu, 2002; Madhok, 1997; Pak & Park, 2004; Randoy & Dibrell, 2002): it can lead to additional costs in obtaining information, and disrupt communication processes, as well as making it difficult for the local subsidiary to integrate, for the company's own routines to be applied and for the product to be adapted.

While institutions are crystallizations of culture, culture is the substratum of institutional arrangements (Hofstede, Van Deusen, Mueller, Charles & The Business Goals Network, 2002). More precisely, culture can be considered part of the environment's informal institutions, which underpin formal institutions (Peng et al., 2008). When multinational companies enter an institutional environment with a different set of rules, it must meet social expectations to demonstrate social responsibility and build social legitimacy in the host country. The difficulty in attaining this social legitimacy is related to the cultural distance between the country of origin and the host country (Cui & Jiang, 2009b, 2010). We can therefore expect that:

Hypothesis 2: Cultural distance between China and the host country is negatively associated with the location of Chinese outward FDI.

DATA AND METHOD

Data collection

The sample for this study is made up of all the outward FDIs made from 2002 to 2009 by the mainland Chinese companies listed on the Fortune Global 500. The year 2002 was chosen because it was when Chinese companies first started to conduct important international

operations. This followed a major boost in 2001 when China joined the World Trade Organization (WTO), and particularly when the Chinese government announced its “go out” policy, which aimed to boost the international competitiveness of Chinese companies by reducing the obstacles to outward FDI.

Outward FDI was first permitted in 1979, but it remained prohibited for private companies until 2003. During that initial period, the internationalization of Chinese companies was tightly controlled by the government (Buckley et al., 2007). The setting up of overseas operations by Chinese firms then became one of the official policies for opening up the economy, with the leading role being played by state-owned enterprises (SOEs), which were seen as instruments through which to achieve national objectives (Zhang & Van den Bulcke, 1996). Since then, the Chinese government has continued to provide incentives for the process: tax relief, credit support, risk-safeguard mechanisms, information service, simplify the process of approval, etc. (Luo, Xue & Han, 2010). The Chinese government considers that forming large multinationals will help China to become a key player in the global economy. Helping Chinese companies get onto the Fortune Global 500 list has thus become an objective in itself (Hong & Sun, 2006).

Overall, 35 different mainland Chinese firms were listed on the Fortune Global 500 between 2005 and 2009. The data on each FDI were obtained from news items published on the website of China Daily (www.chinadaily.com.cn), the largest English-language newspaper in China. Having searched all news items covering international operations by each of the 35 firms between January 2002 and December 2009, we obtained 139 decisions on outward FDIs made by 29 firms in 52 countries. Since we study the decision of location or non-location of a firm in a particular country, we potentially can have a sample size of 1,508 (29 firms * 52 countries) but due to missing values, we had 1,421 observations.

The company that made most FDI during this period was China National Petroleum Corporation (CNPC), with 22 FDI, followed by Sinopec (11), Industrial and Commercial Bank of China (ICBC) (10) and China National Offshore Oil Corporation (CNOOC) (9). The main host countries in the sample were Australia (14 FDI), the US (10), Indonesia (9), the UK (8), Canada and Russia (7). Table 1 reports the descriptive data for location distribution of our sample.

"Table 1 goes about here"

Measures

Dependent variable. The location decision by firm i about a FDI in country j was proxied by a dummy variable, which is assigned a value of 1 if firm i invests in country j , and 0 otherwise.

Independent variables. Based on Buckley et al. (2007) and Duanmu and Guney (2009), host country political risk was proxied by the *political risk* rating of the International Country Risk Guide (PRS, 2009). This rating assigns risk points to a pre-set group of factors, termed political risk components. In every case the lower the risk point total, the higher the risk, and the higher the risk point total the lower the risk. In order to take into account institutional differences, we calculated a political risk distance by subtracting the target market risk value from the home market value (Brouthers, Brouthers, & Werner, 2008).

We used two items to measure *cultural distance*. First, using the Kogut and Singh (1988) *index*, we calculated the cultural distance between China and each host country. Second, based on data reported by the Ohio University (2009), we measured the cultural proximity to China using the percentage of *ethnic Chinese* in the host population. This dummy variable takes value 1 when this percentage is higher than 1%, and 0 otherwise (Buckley et al., 2007).

Control variables. Characteristics of the host market such as size or potential are widely recognized factors that affect the flow of FDIs received by a country (Mascarenhas, 1992; Yu, 1990). We controlled for several host country variables that may impact FDI location choice (Yuan & Pangarkar, 2010). *Domestic demand* (measured as domestic expenditure to GDP) is a proxy for market size. *Developed country* is a dummy variable which is assigned a value of 1 for developed countries and 0 for developing countries.

The intensity of trade relations between country of origin and host country may also affect the flow of FDI (Grosse & Trevino, 1996). Exports to the host country may be used to supply inputs or products to subsidiaries established there. Similarly, imports from these subsidiaries may be used to supply head office with inputs, or even to supply products to the market in the country of origin. To control the possible influence of these factors, we incorporated two more variables into the model (Duanmu & Guney, 2009): *Chinese exports* to the host country, and *Chinese imports* from the host country. The data for both was obtained from the MOFCOM (2009b). We used log transformation to normalize the distribution of these variables.

In order to control the effect that industry can have on FDI location decision, we considered three *industry* dummies: *mining-quarrying*, *manufacturing* and *service*. We also included several firm characteristics that may affect outward FDI decisions: *firm size*, measured as logarithm of sales, and *listed firm*, a dummy variable which is assigned a value of 1 if the company is listed in a stock market, and 0 otherwise.

RESULTS AND DISCUSSION

The hypotheses were tested using a conditional logit model, which is particularly appropriate in situations where the attributes of the choice may also have an impact on the outcome. It has been used in prior empirical studies of location choice (Yuan & Pangarkar, 2010).

Table 2 reports descriptive statistics and correlations while Table 3 shows the results of the conditional logistic regression. As can be seen, we used two models. Model 1 performs the regression considering only control variables. Model 2 also includes independent variables relating to the hypotheses.

"Table 2 goes about here"

"Table 3 goes about here"

The regression equation in Model 1 is statistically significant (Chi-square = 56.09, $p < 0.001$), which suggests that the control variables relating to host market, intensity of trade relations, industry and firm characteristics explain the FDI location choice. These effects are maintained when the explanatory variables are incorporated (Model 2). The regression equation in Model 2 is also statistically significant (Chi-square = 52.14, $p < 0.001$).

Hypothesis 1, which stated that political risk was not related with FDI location decisions, is supported. This goes against the results of previous studies on multinationals from other countries – particularly developed countries. However, as we stated above, previous studies on Chinese multinationals obtained similar results (Buckley et al, 2007; Bunyaratavej & Hahn, 2007; Cui & Jiang, 2009a; Malhotra & Zhu, 2009).

Several explanations can be found for this result that contradicts the conventional influence of political risk on FDI decisions. Firstly, the size of the FDI may affect the influence of political risk. Thus, when making large investments, Chinese companies can take advantage of the opportunity to acquire cheaper assets in countries with a politically unstable system (Malhotra & Zhu, 2009). Secondly, Chinese companies may attempt to take advantage of the opportunities presented by high-risk countries, whose markets may not be highly exploited or may even be unknown to large Western multinationals, such as first-mover advantages, less competition or a lower level of consumer sophistication (Bunyaratavej & Hahn, 2007).

For hypothesis 2, which stated that cultural distance would negatively affect Chinese outward FDI location choice, we obtained mixed results. Thus, hypothesis 2 is only partially supported. By measuring the cultural distance using the Kogut-Singh index (1988), we did not obtain statistical significance. This result goes against observations made by certain previous studies on Chinese multinationals. For example, using the same measurement tool, Li and Wu (2006) found that cultural distance had a negative influence on the number of Chinese FDIs in each country, and Cui and Jiang (2009a, 2009b, 2010) found, albeit using another approach, that cultural barriers also had a negative impact on Chinese companies committing FDI resources.

One possible reason for our result may be that the influence of cultural distance may depend on the Chinese company's objectives. While investments that sought markets might well have been initially aimed at countries in which this distance was smaller, investments that seek know-how have been mainly aimed at developed countries in North America and Europe, which are culturally more distant (Young et al., 1996). Also, many Chinese companies do not seem to shy away from cultural distance, perhaps aided by the alliances they have made in China with multinationals from developed countries (Luo & Tung, 2007).

However, when the cultural distance is proxied by the percentage of ethnic Chinese in the host country, a positive effect is obtained, although with a low statistical significance ($\beta = 0.38, p < 0.1$). Therefore, the proportion of ethnic Chinese in the host country seems to be a factor which favors Chinese outward FDI, in line with hypothesis 2. This result coincides with findings by Buckley et al. (2007), who offer various explanations for the particular importance of overseas Chinese. The Chinese diaspora has contributed to China's integration into the world economy, thanks in particular to the number of FDIs in China from Singapore, Hong Kong and Taiwan. However, overseas Chinese may also have a significant influence on the choice of host country for Chinese outward FDIs. Contacts and social networks (known in

China as *guanxi*) are one of the essential ingredients for the Chinese when doing business. The presence of overseas Chinese in a certain country may therefore reduce the risks and costs associated with identifying business opportunities by Chinese companies, thus favoring Chinese outward FDI.

With regard to the control variables, our model show that three of the variables do seem to have a significant effect on the location decisions made by Chinese multinationals. Firstly, Chinese outward FDI is positively associated with the volume of Chinese exports to the host country ($\beta = 0.68$, $p < 0.01$). However, the influence of the volume of imports from the host country to China was not statistically significant. This mixed influence of the intensity of two-way trade relations on Chinese outward FDI was also observed by Buckley et al. (2007) and Duanmu and Guney (2009).

These results support the idea that exports and FDI are complements for market-serving ventures (Grosse & Trevino, 1996). The consequences of China's entry into the WTO, the liberalization of FDI regimes worldwide and the attempt to avoid trade conflicts with the US and the EU will encourage Chinese FDI in order to maintain existing markets and to find new ones. Chinese companies face quantitative restrictions on exports to other countries – which are even more severe than for non-Chinese companies, so manufacturing FDI has been in many cases the solution to continue accessing those markets (Hong & Sun, 2006; Taylor, 2002).

Regarding imports, it is possible that some Chinese outward FDI substitutes for intermediate imports to China (Buckley et al., 2007). Some Chinese firms relocate production from China to other developing countries in order to circumvent trade barriers in third markets. In this situation, imports of intermediate products to China for processing and re-export are reduced. Although not focusing on Chinese firms, Grosse and Trevino (1996) offer another argument for the lack of positive association between imports and outward FDI. In

the case of China, this result may be explained by the infrequent use of outward FDI projects by Chinese firms to supply their home market.

In addition, belonging to a mining-quarrying industry is positively associated with the decision to invest in a particular country ($\beta = 0.60$, $p < 0.05$). As we pointed out in the introduction section, the search for resources, particularly natural resources, has been one of the traditional objectives of Chinese FDI. Although data on the specific reason behind each FDI decision are not available in our dataset, descriptive statistics of several variables may be able to reflect some of the motives that Chinese companies have. As stated above, countries rich in raw materials such as Australia, Canada, Russia or Kazakhstan are among the main destinations of Chinese outward FDI during the period analyzed. Furthermore, oil and gas companies account for nearly 70% of the total FDI decisions covered by our sample, with CNPC, Sinopec or CNOOC leading the ranking.

Finally, firm size is also positively related to FDI location choice ($\beta = 0.73$, $p < 0.05$). Larger size implies greater availability of financial and managerial resources. Given the costs and risks involved, the propensity to invest abroad is likely to increase in larger firms. These firms may be in a better position to successfully compete with host country firms, especially in host countries, and absorb the high costs and risks in international operations (Pangarkar & Yuan, 2009).

CONCLUSION

This paper aimed to study the influence of host country political risk and cultural distance on the location decisions made by large Chinese multinationals. Our findings show certain characteristics that differ from the conventional wisdom of multinationals. Host country political risk is not associated with the location of Chinese outward FDI and cultural distance does not have a strong negative influence on such decision. In addition, three other variables

seem to have a positive effect on the decision to invest in a particular country: the volume of Chinese exports to the host country, belonging to a mining-quarrying industry and firm size.

In any case, when interpreting our results, the limitations inherent to the nature of our empirical research should be taken into account. The main limitation may be that certain variables could not be included that may also have an influence on location decisions, such as the specific reason for each outward FDI – looking for resources, markets or strategic assets. Depending on what the objective is for Chinese companies in each country, the institutional factors linked to each location may play a very different role. For example, institutional restrictions that may arise when a Chinese company makes an FDI to access a resource considered strategic for the host country may not be applied when investments are made in that same country for the purposes of accessing its market.

However, our research does make an important contribution in both theoretical and empirical terms. On the one hand, our study shows that the location patterns of Chinese multinationals share some characteristics with approaches traditionally associated with institutional theory, together with other less conventional features. Thus, the presence of overseas Chinese in the host country seems to be a factor that helps Chinese companies to overcome the possible cultural barrier.

However, other findings from our paper seem to go against the conventional logic that has been observed in location decisions made by multinationals from other, particularly Western, countries. A high political risk in the host country does not act as a particular disincentive for Chinese multinationals. Furthermore, although we used a conventional measurement that is widely used in the literature on multinationals, we were unable to confirm that cultural distance is an important institutional barrier for Chinese companies. All this may challenge traditional considerations of the institutional focus, which would need to be adapted to explain the international behavior of Chinese multinationals.

On the other hand, the main empirical contribution of our research lies in having provided new evidence regarding a phenomenon that is acquiring ever-increasing economic importance: the arrival of Chinese multinationals on the international scene. Even though in recent years more and more studies have focused on Chinese multinationals, given the recent nature of their internationalization process, this research topic has yet to really establish itself. Further research is therefore needed to extend our knowledge of a type of multinational that plays an increasingly relevant role in international business.

Several interesting avenues thus exist for further research. As well as incorporating other variables that could affect location patterns, such as those mentioned previously relating to the specific objectives of each outward FDI decision, there are other questions that require further study. As occurs with institutional theory, it is still necessary to analyze the degree to which the international expansion of Chinese multinationals is a challenge for other consolidated theoretical frameworks in traditional research, such as resource-based view, transaction-cost perspective and agency theory. It would also be interesting to research how Chinese companies make other important decisions in their international ventures, such as how they choose their entry mode or the type of native or expatriate staff for their foreign subsidiaries. Probing more deeply into the similarities and differences between this recent internationalization process among Chinese multinationals and the expansion years previously shown by its neighbors Japan and Korea could be another promising avenue for future research.

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TABLES

Table 1 Location of Chinese outward FDI 2002-2009

| <i>Location</i> | <i>Number of FDI's</i> |
|---|------------------------|
| Australia | 14 |
| US | 10 |
| Indonesia | 9 |
| UK | 8 |
| Canada, Russia | 7 |
| Singapore | 5 |
| Ecuador, India, Kazakhstan | 4 |
| Germany, Iraq, Japan, Mexico, South Korea, Switzerland, UAE | 3 |
| Afghanistan, Angola, Brazil, Costa Rica, Peru, Philippines, Saudi Arabia, South Africa, Sudan, Venezuela, Vietnam | 2 |
| Azerbaijan, Bahamas, Chile, Congo, Gabon, Greece, Iran, Jamaica, Malaysia, Mauritania, Mongolia, Netherlands, Nigeria, Pakistan, Papua New Guinea, Poland, Slovakia, Syria, Taiwan, Thailand, Turkey, Uzbekistan, Yemen, Zimbabwe | 1 |

Table 2 Means, standard deviations, and correlations

| | <i>Mean</i> | <i>SD</i> | <i>1</i> | <i>2</i> | <i>3</i> | <i>4</i> | <i>5</i> | <i>6</i> | <i>7</i> | <i>8</i> | <i>9</i> | <i>10</i> | <i>11</i> |
|--|-------------|-----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|
| 1. Domestic demand | 71.49 | 14.42 | | | | | | | | | | | |
| 2. Developed country | 0.33 | 0.47 | 0.18** | | | | | | | | | | |
| 3. Chinese exports | 5.59 | 0.82 | -0.04 | 0.55** | | | | | | | | | |
| 4. Chinese imports | 5.40 | 1.11 | -0.21** | 0.36** | 0.74** | | | | | | | | |
| 5. Mining-Quarrying | 0.14 | 0.34 | -0.00 | -0.00 | -0.00 | -0.00 | | | | | | | |
| 6. Manufacturing | 0.31 | 0.46 | 0.00 | 0.00 | 0.00 | 0.00 | -0.27** | | | | | | |
| 7. Service | 0.55 | 0.50 | 0.00 | 0.00 | 0.00 | 0.00 | -0.44** | -0.74** | | | | | |
| 8. Firm size | 4.48 | 0.26 | -0.00 | 0.00 | 0.00 | 0.00 | 0.41** | -0.29** | -0.02 | | | | |
| 9. Listed firm | 0.79 | 0.41 | 0.00 | 0.00 | 0.00 | 0.00 | 0.20** | -0.39** | 0.22** | -0.03 | | | |
| 10. Political risk | -0.32 | 13.89 | 0.15** | 0.68** | 0.47** | 0.29** | -0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | |
| 11. Cultural distance (index) | 1.59 | 1.07 | 0.23** | 0.60** | 0.36** | 0.19** | -0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.62** | |
| 12. Cultural distance (ethnic Chinese) | 0.21 | 0.41 | -0.11** | 0.04 | 0.28** | 0.35** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.23** | 0.01 |

$N=1,421$

** $p<0.01$ (significance levels are based on two-tailed test)

Table 3 Results of conditional logistic regression

| <i>Variables</i> | <i>Model 1</i> | | <i>Model 2</i> | |
|---|----------------|-----------|----------------|-----------|
| | β | <i>SE</i> | β | <i>SE</i> |
| Domestic demand (control) | 0.01 | 0.01 | 0.01 | 0.01 |
| Developed country (control) | -0.03 | 0.23 | -0.08 | 0.32 |
| Chinese exports (control) | 0.65** | 0.22 | 0.68** | 0.24 |
| Chinese imports (control) | 0.02 | 0.16 | -0.05 | 0.17 |
| Mining-Quarrying (control) | 0.65* | 0.26 | 0.60* | 0.27 |
| Manufacturing (control) | 0.18 | 0.25 | 0.22 | 0.25 |
| Firm size (control) | 0.73* | 0.35 | 0.73* | 0.36 |
| Listed firm (control) | 0.23 | 0.28 | 0.30 | 0.29 |
| Political risk (H1) | | | 0.01 | 0.01 |
| Cultural distance (index) (H2) | | | 0.04 | 0.11 |
| Cultural distance (ethnic Chinese) (H2) | | | 0.38† | 0.23 |
| Chi-square | | 56.09*** | | 52.14*** |
| N | | 1,508 | | 1,421 |

Dependent variable: (1) Firm *i* invests in country *j*, (0) otherwise

Service is the reference category for industry

†p<0.10, *p<0.05, **p<0.01, ***p<0.001