

The Impact of the Host Country's Level of Digital Economy Development on the Location Choice of Chinese Outbound Investment

Wanneng Rong^a, Sifan Yang, Di Wang

Anhui University of Finance and Economics, Bengbu Anhui, 233030, China

^arongwanneng@163.com

Abstract

Since China's accession to the WTO in 2001, both the flow and stock of outward foreign direct investment (OFDI) have grown tremendously. However, trade frictions between China and the US have continued to intensify in recent years, and counter-globalisation has been spreading. How can China find new growth points for outward investment in an increasingly complex global trade environment, given the slow growth in both outward FDI flows and stocks in recent years? The rapidly developing digital economy seems to offer the answer. But how has the level of digital economy development in host countries affected China's OFDI (outward foreign direct investment)? Is the attraction effect of different levels of digital economy development on China's OFDI significant? Does the digital economy have the same impact on heterogeneous firms? In view of this, this topic intends to compare different countries' levels of digital economy development through various dimensions such as infrastructure, technology application, political system, business environment and economic benefits, etc. By collecting data on China's OFDI to different countries and using benchmark regression models for empirical analysis, the effect of the host country's digital economy on China's OFDI and the mechanism behind it are investigated. Finally, based on the findings of the study, this paper proposes some new ideas on how the government can further implement the "going out" strategy and how enterprises can carry out the layout of OFDI under the current new trend of global digital economy development.

Keywords

Digital Economy; Foreign Investment; Location Choice.

1. Introduction

In 2020, the new epidemic and the world's most unprecedented change in a century are intertwined, the global economy is in a severe recession and China is the only major economy in the world to maintain positive growth. International trade and foreign direct investment have shrunk, and China's efforts to promote outward investment and cooperation have continued to unleash a pulling effect on the world economy. However, the global trade environment has been bleak in recent years and China's FDI has also been weak. According to the World Investment Report 2020 released by UNCTAD, global FDI flows in 2020 will fall sharply by 40% compared to 2019, and may fall below US\$1 trillion, becoming the lowest value since 2005. China has not been spared from the global downturn in outbound investment, with OFDI flows registering negative growth for the first time in 2017, down 19.3% year-on-year, and then down another 9.6% and 4.3% year-on-year in the following two years. 2020 saw a 12.3% year-on-year increase in China's OFDI flows, but still not at the levels of previous years. China now urgently needs a new growth point to promote the quality development of China's OFDI.

The digital economy is developing rapidly and is becoming increasingly important in the national economy. The White Paper on the Development of China's Digital Economy released by the China Academy of Information and Communication Technology shows that China's digital economy is rising against the epidemic and expanding to 39.2 trillion yuan in 2020, making it one of the core growth poles of the national economy. China's digital economy has maintained a high level of growth, including a growth rate of 9.7% in 2020, much higher than the nominal GDP growth rate of about 6.7 percentage points over the same period, and the share of China's digital economy in GDP increased from 10% to 38.6% between 2002 and 2020. According to the US Bureau of Economic Analysis (BEA), the US digital economy has flourished over the past 15 years, with an average annual growth rate of more than 6%, three times that of the overall economy. 2020 will see the US digital economy reach US\$13.6 trillion, accounting for approximately 65% of US GDP. In October 2020, the US released its National Strategy for Key and Emerging Technologies to promote the development of the digital economy; in March 2021, Canada released its Ambitious Growth Plan for a Digital, Sustainable and Innovative Economy; in September 2020, the UK released its National Data Strategy; and in March 2021, the EU launched its National Data Strategy. In March 2021, the EU launched its "Digital Compass 2030" plan; France, Russia, Japan and South Korea have all proposed national strategies and long-term plans to promote the development of the digital economy.

The rise of the digital economy has created a large number of new industries and new business models, which have had a profound impact on traditional industrial structures and traditional business models. International capital flows have also changed in the new context of the digital development of the economy and society. Digitalisation has led to a change in the location of investment. The traditional factors considered for international investment, such as market perfection and openness, economic and price stability, political and legal, distance and social culture, have been weakened, and the motivations for international investment have changed, with digital technology, data, talent, R&D capabilities and infrastructure playing an increasingly important role in international capital flows.

Faced with the current difficulties encountered in China's OFDI and the general trend of future digital economy development, this paper attempts to analyse the impact of the level of development of the host country's digital economy on China's OFDI location choice from this perspective.

2. Research Significance

2.1. Theoretical Significance

At present, most of the research on OFDI location selection factors focuses on traditional factors such as market size, factor endowment, geographical distance and political system of the host country. With the rapid development of digital economy, this paper attempts to study the impact of location choice of OFDI from the aspect of digital economy, which provides a new research direction for OFDI. In addition, most of the literature on the digital economy focuses on the connotation and measurement of the digital economy and its impact on international trade and economic growth, and rarely combines the level of development of the digital economy with OFDI. This paper incorporates the level of digital economy development of the host country into the important factors considered in the location selection of OFDI in China. Through data collection and empirical research, we find that the higher the level of digital economy development of a country, the more significant its ability to attract OFDI to China. The research in this paper helps to enrich the location selection factors of OFDI and the deeper impact of the digital economy on world investment.

2.2. Practical Significance

Location choice is one of the first issues to be considered in corporate OFDI, which directly affects the specific issues of costs and benefits faced by multinational companies in the future. At present, the digital economy is developing rapidly, and as a new driving force for the development of the world economy, countries have laid out their plans to vigorously promote the development of their digital economy. This paper hopes to study the specific relationship between the level of development of the digital economy in the host country and China's OFDI location choice, to make corresponding suggestions for China to deepen the implementation of the "going out" strategy, and to provide some reference advice for enterprises on how to choose the destination country for investment and how to develop overseas markets under the new situation.

3. References

At present, domestic and foreign scholars do not have a unified definition of the concept of digital economy, and many scholars have discussed it from different perspectives. The concept of "digital economy" was first proposed by Tapscott in 1996, and most scholars at home and abroad believe that the digital economy is a new economic form resulting from the integration of information technology and other fields (Neal Lane, 1999; Beomsoo, 2002; Liu Shucheng, 2001; He Lingyin, 2005, etc.). 2005, etc.); British scholars consider the digital economy to be an economy in which the entire economy relies mainly, if not entirely, on digital technology and where the production of goods and services is based on digitalization can be called a digital economy (Bukht, Heeks, 2017; G20 Summit (2016) provides a more authoritative definition of the concept of digital economy: the digital economy refers to the use of digital knowledge and information as key production elements, and the use of modern information networks as a means of production. elements, the use of modern information networks as an important carrier, and the effective use of information technology as an important driving force for efficiency improvement and economic structure optimization.

At the same time, domestic scholars have conducted research on the impact of the digital economy on different aspects of China's economic activities. The new generation of information science and technology represented by big data is widely used in manufacturing, healthcare, transportation, finance and other fields, and the trend of digitalisation has been reflected in all aspects of the economy and society, becoming a driving force for social change and economic growth (He Liao Yin, 2013); digitalisation has brought about a new mode of production (Ni Hongri, 2016); and the digital economy, due to its high growth, has become an important transformation of its new and old dynamics driving force (Li, 2019); the digital economy has influenced and changed the coordination and integration of enterprises' various businesses and improved the efficiency of resource sharing and utilization (Gu, Q., 2021); the digital economy has a significant positive contribution to the high-quality development of the manufacturing industry (Wang, R. and Chen, 2021); accelerating the level of regional digitization is essential for promoting green technological innovation in resource-based enterprises, thus achieve high-quality development oriented to ecological priority and green development (Wang Fengzheng, Liu Xianglong et al., 2021).

At present, academic research on the factors influencing the location choice of OFDI in China has yielded rich results. The huge market potential of the host country is a preference factor for firms' outward investment (Yan, Daying, 2009); the economic size of the host country and the attraction of Chinese investment have a significant positive correlation (Cheng, Huifang, 2004); manufacturing OFDI is quite sensitive to the labour cost of the host country (Wang, Yongqin, 2014); there is an inverse correlation between Chinese OFDI and the institutional quality of the host country (Buckley, 2007); this is consistent with the overall tendency of China to invest in

countries with a poorer institutional environment (Xiang Jiaojiao, 2014), and the conclusion of investment agreements between China and developing countries is more likely to promote China's investment in them than in developed countries (Yang Hongen, 2016); the strengthening of the level of intellectual property protection in host countries significantly promotes the inflow of Chinese OFDI (Huang Youxing et al., 2021). "The level of trade facilitation in countries along the Belt and Road has a significant positive effect on China's OFDI (Du Qunyang et al., 2021).

In summary, the current research on digital economy at home and abroad mainly focuses on the connotation of digital economy and the impact of digital economy on production, manufacturing and overall economic life, while very little literature has explored the relationship and impact path of digital economy on OFDI. Most of the literature on OFDI in China has studied the market size, institutional quality, investment motives, bilateral investment agreements, financial development and market size of the host country, and less research has been conducted on the factors influencing the digital economy of the host country on the location choice of OFDI in China. Therefore, this paper attempts to combine the development level of the host country's digital economy and China's OFDI location choice to explore the relationship between them and also provide a new reference direction for China's OFDI location choice.

This paper is based on the objective fact that China's OFDI process is faced with increasing uncertainty risks, the traditional OFDI model is weak, while countries have launched a series of policies to promote the development of digital economy, and the digital economy is becoming more and more important in the national economy. By collecting data on the development level of digital economy in each country and the specific data on OFDI in China, we construct a model for empirical analysis to investigate the influence mechanism of the development level of digital economy in host countries on the location choice of OFDI in China, and propose some suggestions to promote the development of OFDI in China, so as to provide some reference for Chinese enterprises in their choice of location for outward investment and improve the profitability and international competitiveness of Chinese enterprises' outward investment.

The study finds that since its accession to the WTO, China's outbound investment has developed rapidly. In terms of stock, China's OFDI stock at the end of 2020 was US\$258.06 billion, 86.3 times higher than that at the end of 2002, and its share in the world rose from 0.4% in 2002 to 6.6%, climbing from 25th to 3rd place, behind only the US (US\$8.13 trillion) and the Netherlands (US\$3.8 trillion). OFDI flows are also growing rapidly, with China's OFDI volume reaching US\$153.71 billion in 2020, ranking first in the world in terms of flow size for the first time. From a regional perspective, most of China's OFDI to OFDI is concentrated in Asia, with about 60% of annual OFDI flows concentrated in the Asian region, followed by Latin America and thirdly Europe. In terms of development level, most of China's OFDI is concentrated in developing countries. In terms of the direction of the base and investment industries, China's OFDI industries are widely distributed, basically covering most of the industries of the national economy, accounting for more in the four major industries of leasing and business services, manufacturing, finance, wholesale and retail trade, with the funds flowing to these four industries accounting for about 70% of the investment flows in the past five years.

4. Influencing Factors

Firstly, Digitalisation has become a new trend in global economic and social development. Information technology and Internet applications have become more popular, the scale of data has exploded, massive data resources have given rise to new technologies such as big data, cloud computing and artificial intelligence, and innovative business models such as social e-commerce, sharing economy and new retail have emerged. However, the "digital divide" has

brought about unbalanced development, and there is a wide gap in the level of digital development between different countries. China has achieved some success in digital industrialisation, industrial digitisation and digital governance, but it ranks low in digital development and still faces problems such as a weak information base, shortage of professionals and slow industrial transformation. The host country has a high level of digital economy development and a high level of internet development, with a higher level of domestic market and high market potential, which can better attract investors to enter. The host country's digital economy can significantly promote Chinese OFDI, for the host country's comprehensive index of digital economy development, social-level Internet penetration, enterprise-level digital industrialisation and government-level digital public services can significantly influence Chinese OFDI, therefore, the host country's level of digital economy development becomes an important reference factor when Chinese enterprises make their location choices for outbound investment.

Second, Digitalisation is driven by a combination of national strategic needs, corporate transformation needs and diversified consumer needs. Digitalisation factors have a profound impact on the outcome of companies' outbound investment location decisions by changing the costs and benefits of their production and operations in a particular country or region. The impact of the digital economy on Chinese OFDI varies across host countries. The digital economy development in developing countries is more conducive to attracting Chinese OFDI, mainly because the upside of digital economy development in developing countries is greater than that in developed countries, and the economic benefits brought about through digital economy construction are higher than those in developed countries. Meanwhile, for different sectors of Chinese OFDI, the construction of digital economy in the host country has a significant positive promotion effect on Chinese OFDI in sectors such as finance, tourism and healthcare.

Thirdly, through further analysis of the impact mechanism, the digital economy in the host country enhances production efficiency, advanced technology levels and reduces operating costs by promoting local human capital and innovation capabilities, thus driving the growth of China's OFDI scale.

5. Policy Recommendations

The government plays an important role in the country's economic development and also plays a guiding role in China's outbound investment cooperation, thus gradually deepening the Belt and Road Initiative. Therefore, to promote the quality and effectiveness of investment in countries along the route, the government needs to play its role as a leader and decision-maker and provide appropriate guidance according to the actual situation. Enterprises are the core component of a country's product market and the mainstay of China's foreign investment. Therefore, in order to optimise the choice of investment location and enhance the quality and efficiency of investment, it is necessary not only to play the role of government policy guidance, but also to enhance the decision-making capacity of enterprises. Therefore, the following three suggestions are put forward from the perspective of the country and enterprises.

Firstly, the digital infrastructure of the host country is an important factor influencing Chinese OFDI, with infrastructure relying on strong government support and investment, and digital sources for enterprises depending on the country's own development and level of foreign investment attraction. Therefore, society, business and government need to work together to create a digital eco-industry. ICTs facilitate the growth of international production and thus the inflow of foreign investment. Therefore, China should vigorously develop its digital economy as a comparative advantage for its economic development and to facilitate the absorption of high-quality foreign direct investment in China.

Secondly, for different industries and regions, due to the different levels of economic development of each country, developed countries have high technology industries and technology levels, but China is often hindered from acquiring knowledge such as technology through reverse OFDI spillovers to developed countries. Therefore, when making OFDI, consider investing in countries or industries with a comparable level of technology to China, where a similar level of technology is accompanied by an efficient absorption capacity. At the same time, encourage enterprises to invest more in industries and regions with weak digital infrastructure to build a comprehensive and balanced digital economy, thus creating a good investment and production environment.

Third, make full use of the digitalisation, new dynamics and intelligent development brought about by the host country's digital economy. Leveraging on the high level of scientific and technological talent and innovation capacity and other specific advantages brought to China by the host country's investment in the digital economy, actively develop a digital policy environment to adapt to the changes brought about by the digital economy on employment and traditional industrial sectors, and at the same time increase investment in talent training and innovation capacity, so that the potential of enterprises and sectors in terms of technological innovation can be released and China and the local community can form This will lead to a friendly investment policy between China and the region, further broaden the scale of interconnected and mutually beneficial investment between the two countries, and accelerate the process of new globalised investment in the digital economy.

Fourth, as the main actors of OFDI, enterprises should pay attention to the positive impact of the host country's digital location advantage on cross-border operations, timely access to and use of information resources to reduce cross-border business risks, quickly open overseas markets through social networking platforms, cross-border e-commerce and other channels, and carry out targeted production and marketing activities in line with the differentiated needs of local consumers. At the same time, we will use the platform effect of digital networks to gather global innovation resources, enhance the competitiveness of enterprises with technological innovation as the core, and achieve an all-round improvement in resource allocation, product quality and management efficiency. In addition, before the actual investment takes place, it is necessary to comprehensively assess the location conditions of the host market, take into account the enterprise's own resources, strength and expected goals and other intrinsic factors, carefully select the appropriate investment location and market entry mode, and adopt a gradual approach to achieve penetration into the international market. Internationalisation pioneering enterprises should play a role of demonstration and promotion of their successful experiences and feasible models of outbound investment, share information, capital, technology and other factors through the Internet platform, deepen the collaboration and mutual assistance between the upstream and downstream of the industrial chain, and reduce the risk of overseas investment by a single enterprise in a group.

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