Impact of Institutional Distance and Cultural Distance on China's OFDI in BRI Countries

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ABSTRACT

This research delves into the complex dynamics influencing China's Outward Foreign Direct Investment (OFDI) within the Belt and Road Initiative (BRI) framework, focusing on the role of institutional and cultural factors. The BRI, a massive global infrastructure and economic development project initiated by China, has attracted significant scholarly and policy attention due to its potential implications for international financial governance and development. The research aims to contribute to the academic understanding of China's investment behavior within the BRI by analyzing the impact of institutional and cultural distance on OFDI patterns. By utilizing panel data from nearly 50 BRI nations and employing analytical techniques, the research sheds light on how these factors shape China's investment decisions from 2011 to 2020. The research suggests that institutional distance promotes China's OFDI to BRI nations, whereas cultural distance is a deterrent. Differences in formal rules and regulations between China and BRI countries tend to encourage investment, while differences in cultural norms and practices hinder it. Moreover, the research highlights that cultural differences have a more substantial negative impact on investment than institutional disparities. Regarding policy implications, the research suggests that efforts to reduce cultural barriers and enhance cross-cultural understanding could facilitate more excellent Investment from China within the BRI countries.

Key Words: Outward Foreign Direct Investment, Institutional Distance, Cultural Distance, China, Belt and Road Countries

INTRODUCTION

Economic growth plays an essential role in the growth of any country. A nation must engage in the global division of labor and cooperation to maximize resource allocation through outward foreign direct investment (OFDI). China's OFDI has had remarkable expansion over the past twenty years since the "Go Global" policy was first implemented in the early twenty-first century. UNCTAD figures show that China's foreign direct investment (OFDI) stock expanded from 27.768 billion dollars in 2000 to 1.79 trillion dollars in 2019, with an average annual growth rate of 26.4%. This represents 0.375% of worldwide OFDI worldwide in 2000 and 4.806% in 2019.

The global economy is recovering slowly, and there are inequalities in global development. Also, significant changes are being made to the multilateral trade and investment laws for international trade. For Asian and European nations, it represents a crucial step in their economic transition. Consequently, cooperation and developmental vitality may be significant factors there. The BRI programmer precisely meets their shared need, and by opening up to other nations, it also creates new prospects for international cooperation and growth. Chinese businesses have invested directly in 50 BRI countries, with the total sum reaching 18.93 billion dollars in 2015. The investment flow climbed 38.6% over the previous year, twice the global growth rate. Chinese direct investment in the BRI countries reached 115.68 billion dollars by the end of 2015, making up 10.5% of the overall stock of Chinese direct Investment (Khan et al., 2020).

The research has significant ramifications for comprehending how emerging economies behave regarding their foreign direct investment (OFDI) and planning China's investment strategy in nations along the Belt and Road. We aim to determine how much Chinese OFDI is impacted by institutional and cultural distance. We have selected 50 countries under the Belt and Road and used a gravity model to analyze the effects institutional and cultural distance have on China's OFDI and how these variables affect China's economic growth.

The following are the main objectives to be achieved in this research:

- The research aims to identify the effects institutional and cultural distance have on China's foreign direct investment in the scenario of One Belt One Road countries.
- The research also focused on recommending practical and appropriate policies for policymakers and future researchers to extend the scope of the research.

CULTURAL AND INSTITUTIONAL ASPECTS OF OFDI

An extensive body of research on investment placement by multinational corporations inspired this work. Dunning's eclectic paradigm proposes three primary motivations behind international investments of firms from developed countries: market-, efficiency- (or cost reduction), or resource- (or strategic asset) seeking. Scholars primarily research developed countries to analyze the motivations of their enterprises in investment activities. In addition to the aforementioned motives, they have begun to focus on the cultural or institutional aspects of the host country when recruiting foreign investments. Academics are becoming more interested in the system's processes as globalization advances, focusing on the investment effectiveness of institutional and cultural distance. These distance characteristics, derived from social heterogeneity, are related to OFDI.

In terms of the determinants of OFDI, there have been numerous empirical studies that, when combined, have produced contradictory findings depending on the model specification, sample size, and empirical methodology used (e.g., Aleksynska & Havrylchyk, 2013; Buckley et al., 2015; Chen, 2018; Deng, 2012; Blonigen, 2005; Nizamuddin et al., 2020; Pasam et al., 2024). Huang & Renyong (2014) conclude that conflict and political instability had little impact on OFDI inflows, using data from seven Central European transition economies from 1993 to 2001. Most researchers have discovered via empirical findings that cultural remoteness deters investment. For instance, Ghosh et al. (2017). examined China's 40 countries and regions using the Kogut-Singh index and Hofstede's idea of cultural distance. They discovered that cultural distance was opposite to OFDI and that variables like bilateral commerce created a conductive impact. Yue et al. (2018)

examined data from China's panel on the OFDI of nations along the "Belt and Road" from 2003 to 2015, relying on the gravity model. The empirical data revealed that China's access to nations along the "Belt and Road" OFDI was severely hampered by cultural differences. However, other researchers have shown that cultural remoteness plays a part in luring investors. Cultural distances and foreign direct investment flows were highly associated in research by Wu et al. (2022) on foreign direct investment flows to Mexico. Researching China's investments throughout several East and Southeast Asian nations, Kang and Jiang (2012) discovered that Chinese multinational corporations also tend to invest in nations significantly culturally distinct from their own. Researchers have discovered a nonlinear interaction between them in addition to only supporting or obstructing linear ones.

The institutional theory asserts the political, social, and economic factors that surround businesses and impact their operations. According to Gallagher & Irwin (2014), the "rules of the game" are made up of both formal (i.e., statutory and regulatory requirements) and informal (i.e., attributes, conventions, and familiarities) elements. IB academics are becoming more aware of how these official and informal institutions considerably shape enterprises' strategy in emerging nations (Ramasamy et al. (2012); Li et al. (2014). In order to establish local legitimacy, MNEs need to adapt to the institutional pressures they face in their host nations (Jiang & Lattemann, 2018; Mohsin et al., 2021; Narsina et al., 2019; Qi & Rao, 2021).

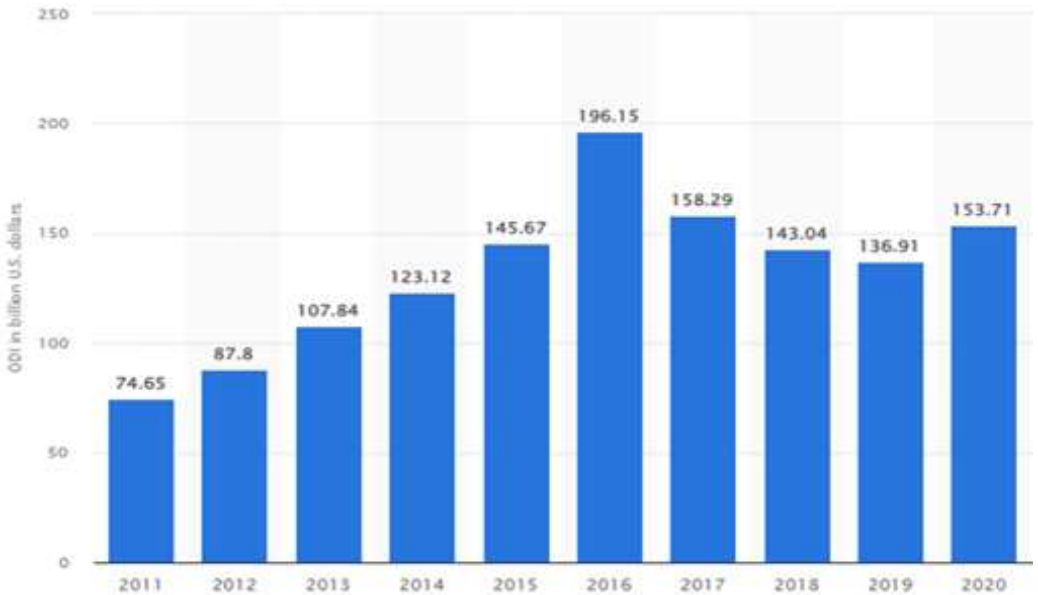

Figure 1: Annual OFDI of China from 2011-2020 (OECD Data, 2023)

RESEARCH METHODOLOGY

Our empirical model is based on the OFDI gravity model, frequently employed to explain country-level trade and OFDI flows in the economics and international business literature. We initially used Pooled OLS (Pooled OLS) to test the formula. The stochastic frontier approach (SFA) has been included in the standard gravity model of gravity (Kommineni et al., 2020; Zhang & Xu, 2017; Nayyar et al., 2022; Ahmmed et al., 2021; Gade et al., 2022) to address the inadequacies of the standard gravity model in the assessment of the trade performance and efficiency. SFA has historically been used to assess the production frontier,

which is the maximum yield that might be produced from a given input quantity. The manufacturing process is efficient if the actual output is made at the frontier level. Otherwise, the production process is assumed to be technically inefficient, suggesting there may be room for increased output.

Sample selection and data source

The research selected data for China's Outward Foreign Direct Investment (OFDI) in 50 countries participating in the Belt and Road Initiative (BRI) between 2013 and 2020. The sample consists of 50 countries participating in the Belt and Road Initiative. These nations, important hubs for China's OFDI under the program, were probably picked because of their geopolitical significance within the BRI framework. By choosing these nations, the research may concentrate on how institutional and cultural distance affect China's investment choices in the One Belt One Road (BRI) context, considering a wide range of host nations in various areas and economic development stages. These Countries are Afghanistan, Albania, Argentina, Azerbaijan, Algeria, Bahrain, Bangladesh, Bulgaria, Bolivia, Cambodia, Chile, Croatia, Cuba, Cyprus, Dominica, Ethiopia, Egypt, Fiji, Greece, Guinea, Ghana, Hungary, Indonesia, Iran, Italy, Jamaica, Kenya, Kuwait, Lebanon, Libya, Malaysia, Maldives, Mali, Mongolia, Morocco, Nigeria, Nepal, Oman, Peru, Pakistan, Philippines, Qatar, Romania, Senegal, Singapore, Thailand, Turkey, Tunisia, Uzbekistan, Vietnam.

China's flagship foreign policy project, the Belt and Road Initiative (BRI), fosters connectivity, infrastructural development, and economic cooperation throughout Asia, Africa, and Europe. For this reason, analyzing China's OFDI in the context of the BRI is crucial to comprehending China's strategic objectives and the dynamics of international investment flows. The research's emphasis on 50 BRI member nations allows it to provide light on the factors that influence China's investment choices in strategically important regions that the initiative seeks to develop, with potential policy ramifications for both China and the host nations.

Reputable resources like China's foreign investment bulletin and the Wind database were used to compile information on China's outward foreign direct investment (OFDI) in the fifty nations chosen. Additional pertinent variables have been obtained from international databases, scholarly research, official documents, and expert evaluations. These variables include institutional distance, cultural distance, GDP, infrastructural development, foreign investment inflows, natural resource rents, and China's GDP.

EMPIRICAL MODEL

The source of data and the configuration of empirical models are important in investigating the investment consequences of institutional and cultural distance more thoroughly. The original investment gravity model, put forth by Flores & Aguilera (2007), has been widely applied to research OFDI and other foreign capital flows. After years of extension and refinement by academics, it has advanced to become one of the more sophisticated theoretical models in international trade. This work employs an expanded investment gravity model to linearize the logarithm of the investment gravity model and incorporate several control variables, drawing on the research by Tang (2012) and Huang & Wang (2011). The equation is as follows:

Equation

$$\text{In OFDIjt} = \propto\_0 + \propto\_1 \text{INSD\_jt} + \propto\_2 \text{CD\_jt} + \propto\_3 \text{In DISO\_jt} + \propto\_4 \text{In GDP\_jt} + \propto\_5 \text{In GDPC\_t} \propto\_6 \text{In INTER\_jt} + \propto\_7 \text{In INFDI\_jt} + \propto\_8 \text{In RENT\_jt} + \mu\_jt$$

Table 1: Variables used in the equation for empirical analysis

Variables	Full Form
INSDjt	Institutional Distance
CDjt	Cultural Distance
DISOjt	Geographical Distance
OFDIjt	Total Foreign Direct Investment
GDPjt	Gross Domestic Product of Host Country
INTERjt	Infrastructure Development
INOFDIjt	Foreign Direct Investment
RENTjt	Natural Resources Rent in the host country
GDPCjt	Gross Domestic Product of China
Ijt	Random Distribution
j	Country
t	Year

HYPOTHESIS-DRIVEN RESEARCH

The quality of institutions largely determines their ability to attract foreign direct investment (FDI). Better institutional quality makes a country more attractive to outward foreign direct investment (OFDI), enabling multinational firms to navigate the legal system more efficiently. However, in nations with significant institutional gaps, businesses must incur higher adaptation costs, which might impede OFDI. In certain situations, businesses may find that exporting is more advantageous than direct investment. High bureaucratic costs can also hinder management effectiveness and discourage foreign direct investment. While trust and cultural or geographical differences can influence cross-border alliances, institutional quality remains a critical factor in shaping the broader investment environment.

We will examine the following hypotheses regarding the impact of institutional quality and governance of the host nation on China's OFDI:

Hypothesis 1:

> Greater institutional distance between China and a host nation within the Belt and Road Initiative (BRI) leads to increased Outward Foreign Direct Investment (OFDI) from China to that country.

Chinese enterprises face several obstacles when attempting to navigate and adjust to the local cultural environment as the gap between their culture and that of the host country grows. These difficulties cover a range of areas related to conducting business and interacting with the local culture. First, comprehending consumer preferences is more complicated when cultural variations affect customer behavior and purchase decisions. In order to properly design their products or services to match the expectations of the target market, Chinese enterprises may need a thorough awareness of local tastes, preferences, and consumption patterns. Following cultural norms is a significant challenge for Chinese businesses functioning in culturally diverse contexts. Social conduct, commercial processes, and interpersonal relationships are governed by various customs, habits, and societal expectations referred to as cultural norms. Breaking these rules may result in miscommunication, awkward social situations, or even outright rejection from stakeholders or local customers (Sridharlakshmi et al., 2024). In order to connect their business processes with the prevalent cultural norms of the host nation, Chinese enterprises need to allocate time and money towards cultural sensitivity training and adaptation techniques.

Building connections, gaining the trust of local stakeholders, and developing fruitful commercial collaborations all depend on having efficient communication. However, communication routes can be hampered by linguistic and cultural hurdles, which can result in miscommunication, misinterpretations, and breakdowns in teamwork. Chinese businesses could find it challenging to understand the subtleties of the common communication methods in the host nation or to deliver their messages successfully. Thus, it becomes imperative to invest in language learning, cross-cultural communication abilities, and cultural sensitivity training to close the communication gap and establish fruitful partnerships with local stakeholders.

This leads us to our second hypo research, which is:

Hypothesis 2:

> Greater cultural distance between China and a host nation within the BRI results in decreased OFDI from China to that country.

In the following chapters of this research, we will examine and verify two key theories about China's Outward Foreign Direct Investment (OFDI) and the Belt and Road Initiative (BRI). Under the BRI framework, the first hypothesis is that higher institutional distances between China and a host country result in higher amounts of foreign direct investment (OFDI) from China to that country. This implies that Chinese enterprises spend more in those nations when institutional and regulatory gaps widen between them and the host country, perhaps taking advantage of regulatory arbitrage or market inefficiencies.

On the other hand, the second hypothesis posits that a more significant cultural gap between China and a recipient country within the BRI reduces foreign direct investment (OFDI) from China to that country. This suggests that Chinese businesses find it harder to navigate and adjust to the local cultural environment as cultural differences grow, which might discourage them from investing in nations with substantial cultural differences. We hope to contribute to a deeper understanding of the factors influencing cross-border investment decisions by offering insights into the complex dynamics between institutional and cultural distances and their impact on China's OFDI within the Belt and Road Initiative (BRI) framework through rigorous analysis and empirical investigation.

Table 2: China's Efficiency in 50 Belt and Road Initiative Countries

Countries	2013-2014	2015-2016	2017-2018	2019-2020	Average	Mean
Afghanistan	0.005	0.034	0.456	0.034	0.003	0.54
Albania	0.374	0.554	0.834	0.092	0.732	0.340
Argentina	0.283	0.56	0.283	0.489	0.483	0.567
Azerbaijan	0.27	0.24	0.283	0.03	0.409	0.345
Algeria	0.27	0.390	0.184	0.192	0.42	0.429
Bahrin	0.834	0.092	0.732	0.93	0.432	0.528
Bangladesh	0.283	0.489	0.483	0.43	0.24	0.212
Bulgaria	0.283	0.03	0.409	0.67	0.45	0.123
Bolivia	0.33	0.56	0.67	0.56	0.335	0.23
Cambodia	0.394	0.845	0.34	0.340	0.65	0.283
Chile	0.24	0.485	0.56	0.23	0.34	0.345
Croatia	0.45	0.586	0.45	0.184	0.34	0.543
Cuba	0.335	0.485	0.66	0.732	0.56	0.654

Cyprus	0.65	0.11	0.092	0.483	0.45	0.485
Dominica	0.34	0.112	0.489	0.384	0.333	0.586
Ethiopia	0.34	0.345	0.496	0.3455	0.233	0.485
Egypt	0.56	0.64	0.605	0.23	0.123	0.11
Fiji	0.45	0.335	0.283	0.67	0.45	0.112
Greece	0.66	0.65	0.566	0.90	0.44	0.345
Guinea	0.64	0.34	0.394	0.96	0.35	0.64
Ghana	0.56	0.34	0.88	0.85	0.65	0.335
Hungary	0.45	0.56	0.340	0.54	0.34	0.675
Indonesia	0.35	0.45	0.23	0.31	0.34	0.67
Iran	0.64	0.66	0.184	0.465	0.56	0.78
Italy	0.68	0.092	0.732	0.675	0.45	0.88
Jamaica	0.394	0.489	0.483	0.45	0.66	0.456
Kenya	0.45	0.496	0.384	0.594	0.64	0.46
Kuwait	0.34	0.005	0.845	0.34	0.964	0.834
Lebanon	0.489	0.483	0.43	0.24	0.212	0.34
Libya	0.03	0.409	0.67	0.45	0.123	0.56
Malaysia	0.56	0.67	0.56	0.335	0.23	0.45
Maldives	0.845	0.34	0.340	0.65	0.283	0.66
Mali	0.485	0.56	0.23	0.34	0.345	0.092
Mongolia	0.586	0.45	0.184	0.34	0.543	0.489
Morocco	0.485	0.66	0.732	0.56	0.654	0.496
Nigeria	0.11	0.092	0.483	0.45	0.485	0.605
Nepal	0.112	0.489	0.384	0.333	0.586	0.283
Oman	0.345	0.496	0.3455	0.233	0.485	0.566
Peru	0.64	0.605	0.23	0.123	0.11	0.394
Pakistan	0.335	0.283	0.67	0.45	0.112	0.88
Philippines	0.65	0.566	0.90	0.44	0.345	0.340
Qatar	0.34	0.394	0.96	0.35	0.64	0.23
Romania	0.34	0.88	0.85	0.65	0.335	0.184
Senegal	0.56	0.340	0.54	0.34	0.675	0.732
Singapore	0.45	0.23	0.31	0.34	0.67	0.184
Thailand	0.66	0.184	0.465	0.56	0.78	0.732
Turkey	0.092	0.732	0.675	0.45	0.88	0.483
Tunisia	0.45	0.184	0.34	0.543	0.005	0.384
Uzbekistan	0.66	0.732	0.56	0.654	0.374	0.43
Vietnam	0.092	0.483	0.45	0.485	0.283	0.67
Mean	0.423	0.834	0.384	0.394	0.564	
Minimum Value	0	0	0.03	0.04	0.054	
Maximum Value	0.66	0.465	0.457	0.845	0.246	

EXPERIMENTS BASED ON TIME LEVELS

Major industrialized nations in Europe and the United States were deeply indebted after 2008. Japan's economy languished for a considerable amount of time, and the rate of global economic development was low. Chinese businesses have accelerated their foreign investment since the financial crisis less impacted them. Private and small and medium-

sized businesses have excelled in the OFDI process (Yin & Lu, 2011). Since the "Belt and Road" project was announced in 2013 and local businesses were forcefully urged to travel abroad to work on the "five connections," China's Investment in the nations along the "Belt and Road" has increased both in volume and scope. China's OFDI placement decision will be significantly influenced by the timing of these two crucial events, improving the system's effectiveness. The time sample of nations along the Belt and Road is divided into three sections in this section: pre-initiative (2009–2013), pre-financial crisis (2003–2008), and initiatives, which present a subsample of the three phases of the late period (2014–2020).

Table 3: Regression Analysis

Variable	Low Income	Low & Middle Income	Middle & High Income	High Income
INSD	2.187	0.756	0.852	0.775
CD	0.684	0.631	0.950	-184
InDISO	0.384	0.274	-1.88	0.976
InGDP	1.734	-0.632	-0.654	0.970
InGDPC	0.284	-1.689	0.759	0.964
INDI	-0.395	0.163	1.875	0.394
INTER	-0.729	1.7432	0.860	0.48
RENT	-0.294	1.842	0.998	-0.840
Constant item	87.321	143.372	-88.698	2.17.760
Sample size	70	189	326	370
R2	0.854	0.926	0.642	0.876

The empirical findings show that for nations along the "Belt and Road," institutional distance is strongly favorably connected with China's OFDI for each sample period. In contrast, cultural distance is significantly adversely correlated with this figure. Institutional distance has a far more substantial deterrent effect than a facilitative one (Richardson et al., 2021). The conclusion is in line with the findings of the full-sample analysis, which show that the impacts of institutional and cultural distance on investment are stable and long-lasting.

The 50 countries along the "Belt and Road" that were the subject of this research's research exhibit varying degrees of economic development. The local system and culture are intimately tied to the growth rate and have a reciprocal impact. However, prior research has shown that mixing with developing nations can result in erroneous assumptions. Thus, this research separates the "Belt and Road" sample countries into four groups for future investigation to assess the impact of the unbalanced level of economic development by the income categorization standards of the World Bank in 2020. These are nations with low, moderate, and high-income levels. 2 Table displays the estimation outcomes based on Equation. The institutional distance coefficients and the nations of each division are positive, as shown in Table 3.

Low-income Countries:

Low-income countries (less than or equal to 99,995) include Uganda, Rwanda, Tanzania, Ethiopia, and Zimbabwe; low-middle-income countries (US$996–3895) include Ghana, Kyrgyzstan, Ukraine, Bangladesh, Pakistan, Morocco, Moldova, Indonesia, Egypt, Nigeria, Georgia, Philippines, Zambia, and Vietnam. These figures are based on the 2017 GNI per capita as standard.

Middle-income Countries:

Armenia, Russia, Iraq, Costa Rica, Serbia, Iran, South Africa, Bulgaria, Ecuador, Dominican Republic, Turkey, Venezuela, Herzegovina, Belarus, Albania, Macedonia, Malaysia, and Montenegro are among the middle-income nations (US$3896–12,055).

High-income Countries:

Among the nations with high incomes (over US$12,055) are Uruguay, Slovakia, Hungary, Greece, Czech Republic, Croatia, Panama, Latvia, Austria, Singapore, Poland, Estonia, Trinidad & Portugal, Tobago, Lithuania, South Korea, and Malta

Low-income and high-income nations have reached 1% of them. Findings indicate that because low-income African nations like Zimbabwe, Ethiopia, and others sometimes have lower quality requirements, China's OFDI in self-income and high-income countries typically tend to be remote from those countries' systems. Chinese investors investing here can obtain consistent expected investment returns and learn from the host country thanks to the improved legal framework, flawless investment support infrastructure, and efficient administrative abilities. Significant system distance gaps have encouraged Chinese Investment in these two nations thanks to better manufacturing and investment management expertise. It is still being determined how institutional distance among middle-income nations (including low- and middle-income nations) would affect investments. It might be because China and countries nearby have greater institutional distance than middle-income nations like the United States and Europe. Promotion or interruption can have repercussions, and there are two possible offsets.

SCALABILITY

According to the analysis above, institutional and cultural distance impacts China's OFDI in nations along the Belt and Road. Given that variables of several subdivision dimensions make up both institutions and culture and that each dimension's investment influence method is unique, this research needs to examine whether subdivision dimensions differ for Chin's OFDI and whether investment effects in all subdivision dimensions are significant. The institutional and cultural distance of the subdivision dimension aligns with Liu et al. (2020)'s methodology.

$$\text{In OFDIjt} = \exp(\propto_0 + \sum_{k=1}^{6} \theta_k \ \text{INS}D_{jkt} + \propto_2 CD_{jt} + \propto_3 In\ DISO_{jt} + \propto_4 In\ GDP_t + \propto_5 In\ GPD_t + \propto_6 In\ \text{INTER}_{jt} + \propto_7 In\ \text{INFDI}_{jt} + \propto_8 \text{In RENT}_{jt} + \mu_{jt})$$

$$\text{In OFDIjt} = \exp(\propto_0 + \sum_{k=1}^{6} \theta_k \ \text{CD}_{jkt} + \propto_2 \text{INS}D_{jkt} + \propto_3 In\ DISO_{jt} + \propto_4 In\ GDP_t + \propto_5 In\ GPD_t + \propto_6 In\ \text{INTER}_{jt} + \propto_7 In\ \text{INFDI}_{jt} + \propto_8 \text{In RENT}_{jt} + \mu_{jt})$$

The subdivision's institutional distance and cultural distance can be determined using the following formulas:

$$\text{INS}D_{jkt} = |IN\ S_{KT} - INS_{jkt}|\sigma_{IK}$$

$$CD_{jkt} = |\ C_{KT} - C_{jkt}|\sigma_{CK}$$

The first two projects that China and nations along the "Belt and Road" route worked on together in the first year were INSDJKT and CDJKT. For each country in the sample, the kth institutional and cultural size distance is represented by the variables rIk and rCk.

ROBUSTNESS CHECK

In this research, a new method is adopted for the key explanatory variables of institutional distance and cultural distance in order to recalculate them in order to investigate the mechanism of institutional distance and cultural distance on OFDI in countries along the "Belt and Road" and further to confirm the robustness of the above empirical conclusions. The two distances—total institutional and cultural distance—are recalculated using the standard Euclidean distance.

Using Yao et al.'s (2017) methodology, we compare the host nation with China to assess the subdivision dimension's institutional and cultural distance. The results of subtracting the scores for each dimension are used as absolute values. In other words, the significant association between the main explanatory factors only exists significantly, regardless of the general institutional distance, cultural distance, or its specific subdivision dimensions. Modifying the measuring techniques unaffected the regression results, and the empirical findings are solid.

Table 4: Robustness Check

Variable	BRI	2011-2013	2014-2017	2018-2020	L Income	L & M Income	M & H Income	H Income
INSD	0.413 (0.126)	0.425 (0.58)	0.832 (0.690)	0.385 (0.850)	2.187 (0.596)	0.756 (0.283)	0.852 (0.485)	0.775 (0.495)
CD	-0.864 (0.860)	0.222 (0.59)	2.333 (0.345)	-0.863 (0.485)	0.684 (0.385)	0.631 (0.485)	0.950 (0.475)	-184 (0.385)
LnDISO	0.584 (0.384)	-0.635 (0.68)	-0.126 (0.9374)	0.638 (0.274)	0.384 (0.274)	0.274 (0.384)	-1.88 (0.256)	0.976 (0.5236)
LnGDP	-0.594 (0.584)	0.694 (0.384)	2.69 (0.90)	0.532 (0.374)	1.734 (0.384)	-0.632 (0.172)	-0.654 (0.192)	0.970 (0.596)
LnGDPC	0.578 (0.384)	6.482 (0.394)	0.392 (0.86)	1.742 (0.86)	0.284 (0.87)	-1.689 (0.394)	0.759 (0.304)	0.964 (0.384)
INDI	-0.49 (0.485)	0.195 (0.304)	3.61 (0.86) (0.843)	0.164 (0.76)	-0.395 (0.384)	0.163 (0.77)	1.875 (0.67)	0.394 (0.323)
INTER	0.384 (0.485)	1.639 (0.394)	0.192 (0.85)	0.034 (0.85)	-0.729 (0.34)	1.7432 (0.75)	0.860 (0.345)	0.48 (0.76)
RENT	-0.84 (0.48)	0.425 (0.485)	0.832 (0.444)	0.385 (0.493)	-0.294 (0.294)	1.842 (0.394)	0.998 (0.38)	-0.840 (0.23)
Constant item	-212.8 (34.76)	-234 (72.9)	76.865 (89.4)	89.54 (45.89)	203.5 (0.45)	300.6 (0.567)	200 (0.274)	19.4 (0.485)
sample	924	423	386	314	70	286	138	389
R2	0.759	0.446	0.784	0.967	0.771	0.896	0.347	0.865

Understanding the relationship between institutional and cultural distance and their impact on Foreign Direct Investment (OFDI) is crucial for researchers. Our investigation into this intricate link produced fascinating findings that provided insight into the complicated interactions between institutional and cultural elements that shape OFDI trends. First of all, our research showed that institutional distance does have a significant influence on OFDI. This is consistent with other research that shows businesses typically invest in nations with institutional frameworks comparable to their own. Firms see fewer risks and better possibilities in familiar and business-friendly institutional contexts, encouraging more significant foreign direct investment (OFDI) (Pan et al., 2020).

Additionally, OFDI is frequently drawn to nations with well-established institutions because of their effective regulatory frameworks, transparent legal systems, and protection of property rights, all of which foster an environment conducive to investment (Karanam et al., 2018). However, our research also revealed that OFDI is typically discouraged by cultural remoteness. This result aligns with the theory that businesses operating in overseas markets may face difficulties due to cultural differences. Significant cultural differences can make it difficult for businesses to communicate, negotiate, and form relationships, raising transaction costs and creating operational obstacles (Kommineni, 2020). Furthermore, cultural differences may impede cross-border information, technology, and management practice transfer, reducing the efficacy of foreign direct Investment (OFDI).

However, it is important to highlight that our results differ from specific classical literature, which contends that OFDI may not necessarily be discouraged by cultural distance. There are times when cultural differences could allow businesses to take advantage of market niches or unique resources in overseas markets (Talla et al., 2023). In addition, businesses that possess adequate cultural intelligence and flexibility have the potential to surmount cultural obstacles and thrive in a variety of cultural environments (Zong et al., 2012). Therefore, depending on their skills and strategic direction, cultural differences can provide a competitive advantage for some organizations while posing obstacles for others.

Our research highlights the intricate connection between institutional and cultural distance and how it affects foreign direct investment. While cultural differences can provide difficulties for businesses operating in foreign markets, institutional similarity tends.

CONCLUSION

This research attempts to model Chinese OFDI to the BRI nations formally. We want to see how much Chinese OFDI is impacted by institutional and cultural distance using the gravity model and panel data on China's investment stock in the BRI region from 2011 to 2020. Our primary conclusions align with the widely accepted hypothesis for explaining OFDI in developing nations. Distance from institutions and cultural distance both have a significant impact on China's OFDI. The findings reveal that institutional distance has generally promoted China's protection of countries along the "Belt and Road," or OFDI, while cultural distance plays the opposite inhibitory role. The inhibitory effect of cultural distance is also significantly more significant than promoting institutional distance.

Specifically, the variations in political institutions OFDI from China are statistically significantly negatively impacted by the efficacy and control of abuse. We do not find any importance of the institutional quality of the home or host countries, in contrast to previous studies that emphasize that these factors are the determinants of OFDI. Additionally, we do not observe a strong relationship between distances, economic success, OFDI, or any appreciable relationship between these variables and institutional quality.

Its facilitative and inhibitory effects coexist while remaining constant throughout the sample duration. i.e., the impact of middle-income countries with similar incomes to China is not considerable, and the impact of these countries with similar incomes to China is insignificant. The impact is crucial for nations with significant economic disparities (high- and low-income nations); abuse regulates distance for each sub dimension. The importance of the right to freedom of expression and accountability is much higher than the impact of the four institutional distance dimensions, horizontal distance, masculinity distance, uncertainty avoidance distance, and long- and short-term orientation distance, as well as government

effectiveness, regulatory quality, political stability and absence of violence, and the rule of law. The most significant ramifications of our findings are that to profit from a "win-win" outcome from Chinese OFDI, China should continue to reduce its level of abuse, and host nations should concentrate on improving their governments' performance. We should focus more on institutional variations among nations in order to facilitate the collaboration mechanisms for the Belt and Road program. The governments should concentrate on bolstering economic institutions to attract investment, particularly for transition and developing economies that serve as beneficiaries.

We have selected 50 countries under the Belt and Road and used the gravity model to analyze the effects institutional and cultural distance have on China's OFDI and how these variables affect China's economic growth. Our research adds several new ideas to the field. First, the relationships between OFDI and INSD metrics are ignored in earlier studies examining the factors influencing China's OFDI. By accounting for the variables that prior research has found to be important, our research adds to the body of knowledge regarding the overall and specific effects of INSD between China and the host countries. Second, among studies conducted to date, our balanced panel data set is the largest and covers the most extended and recent period (2011-2020). In addition, the typical gravity model used in the earlier studies might not have accurately assessed the trade potential that was thought to have the highest potential value. The SFA has been added to the conventional gravity model of gravity to address the standard gravity model's inadequacies in estimating trade performance and efficiency.

Institutional distance significantly influences how China invests in the BRI nations. This result shows that Chinese MNEs choose OFDI locations with less disparate institutional setups. Additionally, there are interactions between culture and bilateral trade. Chinese businesses are eligible for benefits due to economic ties and preferences for distinctive goods based on cultural differences in the host nation. Finally, due to increased trade costs and physical distance, Chinese MNEs prefer to enter a host country through investment rather than commerce.

The results of our research provide insight into the intricate workings of Foreign Direct Investment (OFDI) within the framework of the Belt and Road Initiative (BRI), especially as it relates to the impact that institutional and cultural distance has on China's Outward OFDI (OFDI) operations. While cultural distance frequently serves as a deterrent to OFDI, we found that institutional distance tends to encourage it, albeit classical literature occasionally comes to the opposite conclusion. Institutional distance can have a variety of implications on OFDI. The distinctions in political structures, legal systems, and regulatory frameworks between China and recipient countries along the Belt and Road define it. Greater institutional distance may occasionally indicate chances for Chinese companies to take advantage of market inefficiencies or regulatory arbitrage, which would encourage investment.

Looking ahead, these findings can inform policymakers and businesses involved in BRI projects, emphasizing the importance of understanding and mitigating cultural barriers while navigating institutional differences for successful OFDI ventures. Moreover, the study underscores the need for continued research to refine our understanding of the nuanced factors influencing Chinese OFDI in the BRI region.

RECOMMENDATIONS

The conclusions of this research have significant ramifications for comprehending how emerging economies behave in terms of their foreign direct Investment (OFDI) and for planning China's investment strategy in nations the Belt and Road.

The first step is to improve domestic institution-building efforts based on respect for institutional diversity. Keeping a healthy institutional distance from the host nation can significantly increase the amount of outbound investment. On the one hand, it is vital to respect the rights of the people of the nations along the route to choose their path and model of development and not export their growth when encouraging the construction process. A mechanism improves mutual political trust and boosts policy communication in light of order differences and pluralism. On the other hand, it is also necessary to enhance its system under the presumption of adhering to the road, theoretical and institutional confidence, strengthen the control of abuse, improve the regulatory system, improve the rule of law, enhance the quality of government public services, create a favorable business environment, and strive to be in line with the maintain an appropriate institutional distance in the interactions of other countries to increase investment effectiveness.

Second, cultural exchanges should be boosted to improve communication between people. Respecting the cultures of the nations and peoples along the routes is crucial because the inhibiting effect of cultural distance is typically more important than the promoting effect of institutional distance. Enhance cultural exchanges and interactions between China and nations along the Belt and Road based on diversity and differences and encourage people-to-people contact. Focusing on particular aspects of cultural distance that serve as roadblocks to bilateral investment, special attention must be paid to closing the cultural gap.

Finally, it is critical always to uphold the idea of seeking common ground while reserving distinctions in light of the stark contrasts in systems and cultures between China and the nations along the Belt and Road. Contrarily, it is crucial to investigate the institutional distance and the cultural diversity of a particular dimension honestly and thoroughly while respecting the institutional and cultural diversity of States. In doing so, the standards and guidelines thoroughly and objectively assess a specific degree of institutional and cultural distance. They must also insist on transparency, intolerance, and mutual learning while realizing through reciprocal exchange. The "Belt and Road" construction is a "symphony" in which all nations participate thanks to win-win collaboration, mutual benefit, and shared wealth. The findings of this research can offer invaluable insights to multinational corporations and people who have invested in or plan to engage in BRI projects in the future. It might operate as a guide for them as they choose which elements to consider before investing. The findings of this research may be used to construct a plan as they think about how best to take advantage of the local market in investee nations.

The findings of our research also have numerous policy ramifications for all countries. China can collaborate with the other members of the BRI to lower the institutional, cultural, and geographic hurdles. Programs for cultural interaction and institutional changes can increase the economic advantages of the Belt and Road initiative.

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