



## THE IMPACT FACTORS OF CHINA'S OUTWARD FOREIGN DIRECT INVESTMENT IN SINGAPORE

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## ABSTRACT

The sudden outbreak of COVID-19 pandemic led to a global recession, but China's OFDI remained on a steady rise, attracting global attention. By the end of 2020, Singapore was the second most developed country after the US in terms of receiving outward foreign direct investment (OFDI) flows from China. The investment cooperation between China and Singapore played an important role in promoting the high-quality development of the Belt and Road Initiative and enhancing the economic cooperation between China and ASEAN after the COVID-19 pandemic. This study delves into the influencing factors of Chinese OFDI to Singapore: home country institutions, host country institutions, and investment motives. This study takes Singapore as the research object and uses the data of China's OFDI to Singapore from 2001 to 2020 to conduct an empirical analysis through a modified regression model to analyze the development of China's OFDI to Singapore, so as to make contributions to: (1) providing empirical evidence for studying OFDI from developing to developed countries; (2) providing reference for investment cooperation in the post COVID period between China and Singapore.

**Keywords:** *China's OFDI; Influencing Factors; Singapore; Post COVID Period*

## RESEARCH HIGHLIGHTS

1. This study investigates the factors influencing China's OFDI to Singapore based on Chinese direct investment data from 2001 to 2020.
2. The institutional factors and investment motives can adjust the investment risk preferences of Chinese enterprises and help Chinese enterprises develop in a long and stable way.
3. The study can provide reference suggestions for the Chinese government to continue to facilitate the Belt and Road and fast integration into RCEP.

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## Research Objectives

The COVID-19 pandemic that swept the world in 2020 has depressed global trade and investment, limiting the development space for foreign investment of all countries (Wu & Qi, 2021). China's OFDI in Singapore continued to show resilience and dynamism, with Chinese OFDI to Singapore increasing by 22.75% in 2020 compared to the previous year (Ministry of Commerce (PRC, 2020). Therefore, a thorough investigation should be done to determine why China generates such a high quantity of OFDI for Singapore. In order to serve as a useful guide for Chinese businesses looking to invest in similar nations in the future, this paper conducts empirical research to investigate the specific circumstances surrounding China's OFDI to Singapore from the perspectives of institutions and investment motives.

## Methodology

This study chose China's OFDI in Singapore as the dependent variable and used home country and host countries' institutional factors and the investment motives as independent variables. The time window of this study is from 2001-2020. The study

designed a regression model to test the results. The sample data utilized in this study were found to be, to a certain extent, accurate and reasonable after being submitted to descriptive statistical analysis. The correlation analysis was then used to find the level of correlation between the variables.

## Results

China's OFDI is positively impacted by home country's economic institution. China's OFDI is positively impacted by home country's financial institution. China's financial and economic institutions have favorable impacts on OFDI from China to Singapore, although the influence of political institutions is minimal.

In terms of the host country institution, China's OFDI is influenced favorably by host country's financial institution. China's OFDI is positively impacted by host country's political institution. Singapore, as the financial center of Southeast Asia and even the whole Asia-Pacific region, provided Chinese enterprises with perfect financial services (Li & Zhao, 2017). In addition, the advanced management experience of Singaporean financial firms was also the target of OFDI for Chinese financial OFDI firms (Zhao, 2020). China collected the largest number of investment cases in Singapore, but the lowest number of failed investments in Singapore (Tai & Li, 2018). This was due to the stable and efficient political environment created by Singapore's political institution (Zhao, 2021). Additionally, market-seeking motive has a favorable effect on OFDI, resource seeking motive has a detrimental effect on OFDI, and OFDI is positively impacted by strategy asset.

## Findings

First, China's OFDI has increased significantly because of the strengthening of the economic power. This is inextricably linked to the institution in the home country's support. The economic development and economic strength of the home country were the core driving force of OFDI (You & Wang, 2019). Second, China's financial support has provided richer financial support for Chinese enterprises (Xue & Shuai, 2019). In addition, China's political institution insignificantly impacted OFDI to Singapore. Thus, it is clear that China's OFDI to Singapore is mostly economically oriented. Secondly, the political environment and financial support provided the ability of Singapore to draw China's OFDI, and Singapore has one of the best business environments in Southeast Asia and the world (Li, 2019). According to the empirical findings, Singapore's political institution and financial backing both significantly boost Chinese OFDI. This is consistent with Singapore's status as the region's financial hub. In addition, Singapore's high-end consumer market and technological advantages are the key factors luring Chinese OFDI (Li, 2019; Liu, 2022), as well as the main incentive for Chinese OFDI to Singapore, due to the policy need of the home nation to pursue high-quality OFDI development.

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### Author's Biography



**XUE YE**, a Chinese PhD student majoring in international business at Universiti Utara Malaysia. She received her master's degree from the University of Hertfordshire in 2013. Her main research direction is China's Outward Foreign Direct Investment, especially investment in ASEAN countries.



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