

How does Cultural Distance Affect Chinese Companies’ Outward Foreign Investment? Evidence from the Belt and Road Initiative

By Zheng Fan^{*}, Lihang Liu[±] & Peihua Fan[°]

Being proposed from 2013, the Belt and Road Initiative highlights five focuses, which are policy coordination, unimpeded trade, financial integration, facilities connectivity and people-to-people bond respectively. However, we propose that the implementation of people-to-people bond could be hampered by cultural distance between different countries and thus negatively affecting the fulfillment of other focuses. Hence, it’s an essential prerequisite to verify the impact of cultural distance so as to better promote the connectivity among Belt and Road partners. In this study, we conduct an empirical study on the impact of cultural distance on Chinese companies’ OFDI using a panel data set of 40 countries along the Belt and Road over the period 2014-2020. Results show that cultural distance has a negative impact on Chinese companies’ OFDI in Belt and Road partner countries. What is more, it’s found that based on the model of national culture developed by Hofstede, Chinese companies pay more attention to the similarity in the cultural dimension of masculinity with host countries when making outbound investment. Our research has both theoretical and practical implications to relevant research fields and the Belt and Road practice.

Keywords: *the Belt and Road initiative, cultural distance, Chinese companies’ OFDI, cultural dimension, masculinity*

Introduction

The Belt and Road, including the Silk Road Economic Belt and the 21st Century Maritime Silk Road, closely links the cross regional collaboration among Asia, Europe and Africa in terms of policy, commerce and capital. Since the proposal was put forward, companies in Belt and Road countries have gradually taken partner countries as their main choice for outbound investment. However, due to the cultural distance between different countries and regions, as well as the expensive cost of cultural integration, corporations’ outward investment activities may be hindered.

In order to build a community of interests among partner countries, the Belt and Road Initiative has focused on implementing a five-pronged approach which includes policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bond. However, we argue that if there is a large

^{*}Professor, School of Business and Management, Shanghai International Studies University, China.

[±]PhD Student, School of Business and Management, Shanghai International Studies University, China.

[°]Professor, School of Business and Management, Shanghai International Studies University, China.

cultural distance between countries, the “people-to-people bond” will be harder to achieve, which may further hinder the fulfillment of other four focuses, such as “unimpeded trade” and “financial integration”.

Hence, in our study, we aim to empirically explore whether cultural differences between China and other Belt and Road partner countries affect the actual investment choices made by Chinese enterprises. If so, what is the degree of the impact? Meanwhile, how does particular cultural dimension affect companies’ foreign investment choices? To solve these problems, first in this introduction, we briefly introduce the Belt and Road Initiative and its five main focuses, and argue that cultural distance might inhibit these strategies, especially the people-to-people bond. In the theoretical foundation and literature review, we introduce the Hofstede national culture model for better studying cultural distance, and review the influence of cultural distance on international business in existing literature. Furthermore, in data and methods, we introduce our sample selection process, variables’ definition, and analytical model. Then, in results, we use random effects models to test the effects of both cultural distance and gap between particular cultural dimensions on Chinese companies’ OFDI (Outward Foreign Direct Investment), and verify the robustness of our research methods and indicators. Finally, in discussion, we summarize our research findings, significance, suggestions, limitations, and propose possible future research directions. Possible results and conclusions of our study may play an important role in reminding Chinese enterprises to focus on the closer people-to-people bond when they are planning to make investment into other Belt and Road partner countries, and take actions to improve the adverse effects of cultural distance, which will surely help them promote their performance when they invest in host countries.

Theoretical Foundation and Literature Review

Hofstede (2001) argued that culture is the common programming of ideas unique to a group. In our study, we use the six dimensions of national culture model (Hofstede 2001, Hofstede et al. 2010) to represent the characteristics of culture in our sample nations and to obtain the cultural distance between these nations. The six representative cultural factors are Power distance (PDI), Individualism vs. Collectivism (IDV), Masculinity vs. Femininity (MAS), Uncertainty avoidance (UAI), Long vs. Short term orientation (LTO) and Indulgence vs. Restraint (IND). Here, we take China as an example to introduce these six cultural dimensions. As illustrated by Figure 1, China gets relatively high scores on factors of Power distance, Masculinity and Long term orientation, and relatively low scores on factors of Individualism, Uncertainty avoidance, and Indulgence. Proposed by Hofstede and his colleagues (Hofstede 2001, Hofstede et al. 2010), power distance in firms refers to the degree to which employees want to challenge the inequality which they are confronted with. Chinese culture gets relatively high scores on this dimension, which means that people have a greater tolerance for hierarchical systems in companies. And since Chinese culture tends to be collectivism rather

than individualism, Chinese people focus more on organizational interests rather than their personal stake. Further, Chinese society is characterized by masculinity, so that people expect to make achievement and would like to sacrifice their own leisure time to their work tasks. Moreover, the score of uncertainty avoidance in Chinese culture is relatively low, which indicates that people in this society are more entrepreneurial and feel less uncomfortable with taking risks. Besides, since China gets very high scores on long term orientation dimension, we can infer that local people care less about immediate benefit but more about future development. Furthermore, since China gets very low scores on the dimension of indulgence, we can infer that people take it for granted that they should follow social norms and control their desires.

As different cultures shape different psychological and behavioral patterns, cultural distance between countries may also have a significant impact on managers' outward foreign investment decisions and thus their companies' international activities. Indeed, cultural distance has been widely studied in international business research (Azar and Drogendijk 2016, Shenkar 2001). It was clarified by the study of Shenkar (2001) that, according to the theory of familiarity, cultural distance negatively affects companies' outward investment choice towards culturally distant countries. And based on the Uppsala process model (Johanson and Vahlne 1977), cultural distance has an impact on firms' entry sequence among different foreign markets. This study also mentioned that due to the consideration of uncertainty and cost, cultural distance also affects the degree of control over foreign business and therefore the entry mode to foreign markets. Besides, cultural gap also has an impact on the performance of subsidiaries. In addition, a recent meta-analysis review researched by Beugelsdijk et al. (2018) has summarized the influence of cultural distance on the whole procedures of enterprises' international business. It was concluded in this review that firms often do not prefer to invest in countries with distant cultures, but if they do so, they are inclined to choose greenfield investment rather than acquisitions when expanding to such countries. However, the impact of cultural distance is not always significant. There have been studies which couldn't validate the adverse impact of cultural gap (Beugelsdijk et al. 2018). Also, the study of Brouthers and Brouthers (2000) did not find a significant impact of cultural distance on Japanese parent companies' choices between greenfield investment and acquisitions when they decide to conduct business in some of the European countries. Setting aside the impact of overall cultural distance, some scholars emphasize more on the impact of particular cultural dimensions on enterprises' outbound investment. For instance, Barkema et al. (1997) argued that culture is too complex to be overly simplified, and they found that the distance in uncertainty avoidance between two cultures has significant adverse effects on international joint ventures (IJVs) due to different levels of risk tolerance. Another example suggested that high power distance implies low trust, and therefore increases the perceived transaction costs, leading to the preference for direct outward investment rather than licensing (Shane 1992). Recently, based on the sample of Myanmar IJVs, Andrews et al. (2022) explored how MNCs react to superstitions in the host country by conducting qualitative studies. Khan et al. (2023) found that cultural factors such as

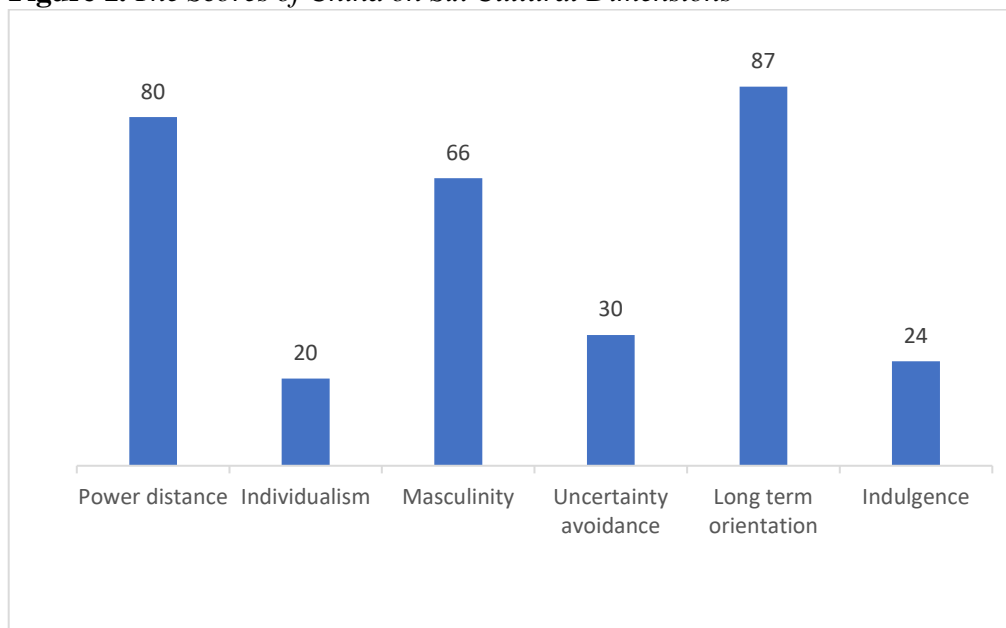
shared border and common official language have a positive influence on Chinese OFDI in Belt and Road countries. Therefore, we can infer from previous studies that a particular cultural dimension can also influence enterprises' outbound investment decisions.

Based on existing studies, our research wants to explore how cultural distance affects Chinese enterprises' outbound investment along Belt and Road partner countries. Currently, there have been a few scholars who have conducted research on this topic (e.g., Mohsin et al. 2021, Khan et al. 2023), but due to the limited number of studies which have taken Belt and Road countries as the research sample, further empirical testings are still needed on this topic, so as to further verify the impact of cultural distance as a whole and by its single dimensions on Chinese firms' investment along Belt and Road countries. Due to the uncertainty brought about by cultural differences, Chinese companies may find it costs more to invest in countries with distant cultures, so they may be more inclined to invest in countries with similar cultures at first (Drogendijk and Blomkvist 2013). According to the above review and analysis, we hypothesize that:

Hypothesis 1: Cultural distance negatively affects Chinese enterprises' OFDI to Belt and Road host countries. The greater the cultural distance between China and Belt and Road partner countries, the smaller the OFDI of Chinese firms.

Hypothesis 2: Distance on particular cultural dimension negatively affects Chinese enterprises' OFDI to Belt and Road host countries. The greater the cultural distance on each of the six subdimensions between China and Belt and Road partner countries, the smaller the OFDI of Chinese firms.

Figure 1. *The Scores of China on Six Cultural Dimensions*



Source: <https://www.hofstede-insights.com/country-comparison/china/>.

Data and Methods

In this part, we first introduce what we have done in determining the study sample. Next, we present the dependent variable, independent variables, and control variables of our study. Lastly, we illustrate how we constructed the models of the influence of cultural distance on Chinese Companies' OFDI.

Sample Selection

In order to calculate the cultural gap between China and Belt and Road partner countries, we surfed the hofstede-insights website and achieved the scores of cultural dimensions for Belt and Road countries. After manual screening and sorting, we obtained the cultural data for 47 Belt and Road countries except for China. However, 6 sample countries were then excluded due to missing scores on LTO or IND cultural dimensions. After removing Belt and Road sample countries without complete data of all the six dimensions, we obtained complete cultural data for 41 Belt and Road countries excluding China. Then, we matched cultural scores with OFDI data of Chinese companies, and excluded one country who had missing investment data from the 41 sample countries. Finally, we collected the panel data of 40 Belt and Road partner countries during 2014 to 2020, and used them to empirically test how cultural distance affects the outbound investment of Chinese enterprises. National name and cultural dimension scores of 40 sample countries are listed in Table 1.

Table 1. National Name and Cultural Dimension Scores of 40 Sample Countries

| No. | Country code | Country name | Scores on cultural dimensions | | | | | |
|-----|--------------|------------------------|-------------------------------|-----|-----|-----|-----|-----|
| | | | PDI | IDV | MAS | UAI | LTO | IND |
| 1 | ALB | Albania | 90 | 20 | 80 | 70 | 61 | 15 |
| 2 | ARE | United Arab Emirates | 74 | 36 | 52 | 66 | 22 | 22 |
| 3 | AZE | Azerbaijan | 85 | 22 | 50 | 88 | 61 | 22 |
| 4 | EGY | Egypt | 80 | 37 | 55 | 55 | 42 | 0 |
| 5 | EST | Estonia | 40 | 60 | 30 | 60 | 82 | 16 |
| 6 | PAK | Pakistan | 55 | 14 | 50 | 70 | 50 | 0 |
| 7 | BLR | Belarus | 95 | 25 | 20 | 95 | 81 | 15 |
| 8 | BGR | Bulgaria | 70 | 30 | 40 | 85 | 69 | 16 |
| 9 | MKD | North Macedonia | 90 | 22 | 45 | 87 | 62 | 35 |
| 10 | BIH | Bosnia and Herzegovina | 90 | 22 | 48 | 87 | 70 | 44 |
| 11 | POL | Poland | 68 | 60 | 64 | 93 | 38 | 29 |
| 12 | RUS | Russia | 93 | 39 | 36 | 95 | 81 | 20 |
| 13 | PHL | Philippines | 94 | 32 | 64 | 44 | 27 | 42 |
| 14 | GEO | Georgia | 65 | 41 | 55 | 85 | 38 | 32 |
| 15 | KAZ | Kazakhstan | 88 | 20 | 50 | 88 | 85 | 22 |
| 16 | MNE | Montenegro | 88 | 24 | 48 | 90 | 75 | 20 |

| | | | | | | | | |
|----|-----|----------------|-----|----|-----|----|----|----|
| 17 | CZE | Czech Republic | 57 | 58 | 57 | 74 | 70 | 29 |
| 18 | HRV | Croatia | 73 | 33 | 40 | 80 | 58 | 33 |
| 19 | LVA | Latvia | 44 | 70 | 9 | 63 | 69 | 13 |
| 20 | LBN | Lebanon | 62 | 43 | 48 | 57 | 22 | 10 |
| 21 | LTU | Lithuania | 42 | 60 | 19 | 65 | 82 | 16 |
| 22 | ROU | Romania | 90 | 30 | 42 | 90 | 52 | 20 |
| 23 | MYS | Malaysia | 100 | 26 | 50 | 36 | 41 | 57 |
| 24 | BGD | Bangladesh | 80 | 20 | 55 | 60 | 47 | 20 |
| 25 | MDA | Moldova | 90 | 27 | 39 | 95 | 71 | 19 |
| 26 | SRB | Serbia | 86 | 25 | 43 | 92 | 52 | 28 |
| 27 | SAU | Saudi Arabia | 72 | 48 | 43 | 64 | 27 | 14 |
| 28 | SVK | Slovakia | 100 | 52 | 100 | 51 | 77 | 28 |
| 29 | SVN | Slovenia | 71 | 27 | 19 | 88 | 49 | 48 |
| 30 | THA | Thailand | 64 | 20 | 34 | 64 | 32 | 45 |
| 31 | TUR | Turkey | 66 | 37 | 45 | 85 | 46 | 49 |
| 32 | UKR | Ukraine | 92 | 25 | 27 | 95 | 86 | 14 |
| 33 | SGP | Singapore | 74 | 20 | 48 | 8 | 72 | 46 |
| 34 | HUN | Hungary | 46 | 80 | 88 | 82 | 58 | 31 |
| 35 | ARM | Armenia | 85 | 22 | 50 | 88 | 61 | 25 |
| 36 | IRQ | Iraq | 97 | 31 | 53 | 96 | 12 | 23 |
| 37 | IRN | Iran | 58 | 41 | 43 | 59 | 14 | 40 |
| 38 | IDN | Indonesia | 78 | 14 | 46 | 48 | 62 | 38 |
| 39 | JOR | Jordan | 70 | 30 | 45 | 65 | 16 | 43 |
| 40 | VNM | Vietnam | 70 | 20 | 40 | 30 | 57 | 35 |

Source: <https://www.hofstede-insights.com/country-comparison/>.

Variables

Dependent Variable

Chinese enterprises' OFDI towards Belt and Road partner countries was chosen as the dependent variable in our study. The variable was measured by the year-end stock of Chinese firms' OFDI, and the data was retrieved from CSMAR Belt and Road database.

Independent Variable

Cultural distance (CD) between China and Belt and Road partner countries is the most important independent variable in our research. As mentioned above, the original data of six cultural dimensions was obtained from hofstede-insights website. To calculate the gap between two different cultures, we applied the index developed by Kogut and Singh (1988). The formula of the index is as follows:

$$CD_i = \sum_{j=1}^6 \left\{ (I_{ij} - I_{CNj})^2 / V_j \right\} / 6 \#(1)$$

where, subscript i means the i th nation, CN means China and j represents the j th cultural dimension. CD_i stands for the cultural gap between China and another partner nation i , I_{ij} is the symbol indicating the score on the j th cultural factor of a particular nation i , I_{CNj} stands for the scores of China on every single cultural factor, and V_j is an abbreviation for the variance of the j th cultural factor.

Besides, in order to measure the gap of the six particular cultural dimensions between China and Belt and Road partner countries, the calculation formula (2) was established as follows, in which CD_{ij} reflects the gap in the j th cultural dimension between China and the partner country i . The interpretations of other symbols are the same with those of formula (1).

$$CD_{ij} = (I_{ij} - I_{CNj})^2 / V_j \#(2)$$

Control Variables

China's economic scale (GDPCN). The scale of China's economy is represented by GDP, which reflects the economic base and strength of a country. Generally speaking, economic scale will have an impact on enterprises' outward investment. A good economic foundation reflects a country's economic strength and also represents the economic driving force for firms' outward investment.

The market scale of partner country (GDP). In our research, since GDP can well reflect the overall strength and market demand of the host nation, we also use GDP of Belt and Road partner countries to represent their market capacity. Usually, the larger the market scale of the partner nation is, the greater the future development opportunities for firms will be, and the stronger the investment motivation of Chinese firms will have towards the host country.

Degree of infrastructure construction (INFRA). Perfect infrastructure allocation can help enterprise reduce costs and therefore attract foreign investment. Referring to the research of Yuan et al. (2018), since the internet is becoming increasingly indispensable for daily and working use, and is likely to affect the investment of foreign enterprises into the host nation, we use the Internet penetration rate of Belt and Road host countries to represent the level of infrastructure improvement.

Degree of technological development (TECH). We regard the high-tech exports of partner countries as a representative of the level of technological development, so as to control the impact of the degree of technological development of Belt and Road partner countries, for the reason that countries with advanced technologies are more likely to be favored by foreign enterprises so that they can attract more foreign capital inflow.

Safety concerns (SAFE). The security situation of a partner country is represented by its proportion of military expenditure to GDP, and we suppose that security is also an important consideration for Chinese enterprises when they are making foreign investment decisions.

Data for all the control variables were achieved from the CSMAR Belt and Road database.

Analytical Model

In order to test the influence of cultural distance on Chinese companies' outward foreign investment, we drew on the widely used gravity model proposed by Anderson (1979). Through taking natural logarithm for some variables and putting all variables into the gravity model, the equation was obtained as follows:

$$\ln OFDI_{it} = \beta_0 + \beta_1 CD_i + \beta_2 \ln GDPCN_t + \beta_3 \ln GDP_{it} + \beta_4 INFRA_{it} + \beta_5 \ln TECH_{it} + \beta_6 SAFE_{it} + \varepsilon_{it} \#(3)$$

where, $\ln OFDI_{it}$ is the natural logarithm of Chinese companies' OFDI indicated by the year-end investment stock in partner country i in year t . CD_i reflects cultural distance between China and the i th partner country. One of the control variables, $\ln GDPCN_t$, indicates China's GDP in year t after taking natural logarithm. Other control variables $\ln GDP_{it}$, $INFRA_{it}$, $\ln TECH_{it}$, and $SAFE_{it}$ respectively represent the natural logarithm of GDP, the Internet penetration rate, the natural logarithm of high-tech exports, and the proportion of military expenditure in GDP of the i th Belt and Road partner country in year t . ε_{it} is a random error term.

In addition, as we need to specifically estimate the influence of cultural gap between China and Belt and Road partner countries on six particular cultural dimensions, we further established equation (4), where the cultural gap between China and the i th partner country on the six particular cultural factors are expressed as PDI_i , IDV_i , MAS_i , UAI_i , LTO_i and IND_i , respectively. The interpretations of other variables are as the same as those in equation (3).

$$\ln OFDI_{it} = \beta_0 + \beta_1 PDI_i + \beta_2 IDV_i + \beta_3 MAS_i + \beta_4 UAI_i + \beta_5 LTO_i + \beta_6 IND_i + \beta_7 \ln GDPCN_t + \beta_8 \ln GDP_{it} + \beta_9 INFRA_{it} + \beta_{10} \ln TECH_{it} + \beta_{11} SAFE_{it} + \varepsilon_{it} \#(4)$$

Results

To start with, in order to get the intact and neat panel data, we treated the raw data through merging and making up the missing values. Next, we conducted descriptive statistical analysis on the variables. Before regression, we also used two test methods to exclude the possible serious multicollinearity problem between variables. Subsequently, we used random effects models to estimate the impacts of both overall and individual cultural distance on Chinese enterprises' OFDI. Finally, we also tested the robustness by altering the calculation way of cultural distance index.

Data Processing and Descriptive Statistics

First, we calculated the cultural distance using the cultural data that had been achieved earlier. Then, we merged and matched the data among Chinese firms'

OFDI, cultural distance between China and partner nations, as well as several control variables, and finally we got the panel data for 40 sample countries from 2014-2020 for further research and analysis. After merging these data, it was found that some variables of a few sample countries had missing values, such as high-tech exports, Internet penetration rate and the proportion of military expenditure in GDP. Thus, we leveraged the method of linear interpolation to make up for the missing data. For the missing values that failed to be compensated with linear interpolation, we supplemented them in other ways. For example, the spss 16.0 software couldn't linearly interpolate the data of high-tech exports for some sample countries since there exist too many missing years, so we used the method of mean replacement instead. And for the negative values that appear after using the method of linear interpolation, we assigned them the value of one, whose value will equal zero if taking logarithm.

The outcomes of the descriptive statistical analysis of our chosen variables are listed in Table 2, where we can find five kinds of statistical properties of variables including their mean value, standard deviation and so on. Each variable contains 280 observations of 40 Belt and Road sample countries over seven years from 2014 to 2020. Among them, natural logarithm conversion is conducted on variables including year-end stock of Chinese enterprises' OFDI, China's GDP, GDP of host countries, and high-tech exports of host countries.

Table 2. *Descriptive Statistics of Variables*

| Variable | Variable meaning | Number of observations | Mean | SD | Min | Max |
|----------|---|------------------------|--------|--------|--------|---------|
| lnOFDI | Chinese enterprises' OFDI | 280 | 10.060 | 2.771 | 3.466 | 15.600 |
| CD | Cultural distance | 280 | 2.426 | 0.984 | 0.798 | 4.970 |
| PDI | Power distance | 280 | 1.066 | 1.483 | 0.000 | 5.991 |
| IDV | Individualism vs. Collectivism | 280 | 1.768 | 3.073 | 0.000 | 14.300 |
| MAS | Masculinity vs. Femininity | 280 | 2.264 | 2.401 | 0.014 | 11.150 |
| UAI | Uncertainty avoidance | 280 | 5.008 | 3.229 | 0.000 | 9.886 |
| LTO | Long vs. Short term orientation | 280 | 3.403 | 3.646 | 0.002 | 12.740 |
| IND | Indulgence vs. Restraint | 280 | 1.046 | 1.352 | 0.006 | 6.160 |
| lnGDPCN | GDP of China | 280 | 16.340 | 0.122 | 16.170 | 16.510 |
| lnGDP | GDP of host countries | 280 | 11.560 | 1.439 | 8.299 | 14.520 |
| lnTECH | High-tech exports | 280 | 20.800 | 3.002 | 0.000 | 25.800 |
| INFRA | Internet penetration rate | 280 | 66.190 | 19.140 | 11.120 | 100.000 |
| SAFE | Proportion of military expenditure to GDP | 280 | 2.352 | 1.831 | 0.001 | 13.330 |

Source: SPSS 16.0 software.

Initial Testing

Before regression, we tried to get the correlation coefficient matrix through correlation test so as to check the correlation coefficient between variables, aiming to determine if there would be a serious multicollinearity problem among explanatory variables. According to the result of correlation test which is presented in Table 3, we can find that the absolute values of the correlation coefficients between different explanatory variables are relatively small. Except for the correlation coefficient between the host country's GDP (lnGDP) and high-tech exports (lnTECH) of 0.579, the correlation coefficients between other variables are less than 0.5. What's more, according to the results of VIF test (see Table 4), the maximum VIF of the variables equals 2, and the average equals 1.43, all of which are far less than the critical value of 10, which further helped us eliminate the possibility of multicollinearity between explanatory variables.

Table 3. *Correlation Coefficient Matrix of Main Variables*

| Variable | lnOFDI | CD | lnGDPCN | lnGDP | lnTECH | INFRA | SAFE |
|----------|--------|-------|---------|--------|--------|-------|------|
| lnOFDI | 1 | | | | | | |
| CD | -0.200 | 1 | | | | | |
| lnGDPCN | 0.132 | 0 | 1 | | | | |
| lnGDP | 0.816 | 0.006 | 0.048 | 1 | | | |
| lnTECH | 0.489 | 0.063 | -0.006 | 0.579 | 1 | | |
| INFRA | -0.178 | 0.223 | 0.301 | -0.169 | -0.033 | 1 | |
| SAFE | 0.189 | 0.100 | 0.011 | 0.253 | -0.149 | 0.106 | 1 |

Source: SPSS 16.0 software.

Table 4. *VIF Test Results*

| Variable | VIF | 1/VIF |
|----------|-------|-------|
| lnGDP | 2 | 0.501 |
| lnTECH | 1.820 | 0.549 |
| SAFE | 1.320 | 0.759 |
| INFRA | 1.270 | 0.789 |
| lnGDPCN | 1.130 | 0.884 |
| CD | 1.070 | 0.932 |
| Mean VIF | 1.430 | - |

Source: SPSS 16.0 software.

Regression Result Analysis

Since cultural distance as the core explanatory variable does not change over time, using the fixed effects model as the analytical model was excluded from our study. Next, an LM test was used on the sample, and the test results showed that the null hypothesis that there is no individual random effect was denied. Therefore, the pooled model was ruled out but the random effects model was picked as our estimation approach. Finally, we got the estimated results (see Table 5).

We used the random effects model to estimate equation (3), aiming to test the influence of cultural distance on Chinese companies' OFDI. From the results reported in Regression (1) of Table 5, it can be found that the estimated coefficient is -0.588, which is significant at the 1% level, indicating that cultural distance does have a negative effect on Chinese enterprises' outward investment, and thus hypothesis 1 is supported. Specifically, when the cultural distance index between China and the partner country increases by one unit, Chinese companies' OFDI in this partner country will decline by 58.8%. In addition, the estimated coefficients of other control variables indicate that for every 1% increase in China's GDP, the OFDI of Chinese enterprises increases by 2.39%; Every 1% increase in partner country's GDP will promote Chinese enterprises' OFDI in that country by 1.361%; And when the high-tech exports of the partner country increases by 1%, the investment of Chinese firms to the host nation increases by 0.045%. All these effects are significant at the 1% significance level, indicating that control variables including Chinese economic prosperity, host countries' market scale and their technological development level have played important roles in promoting OFDI of Chinese companies. However, the estimated results also show that both the Internet penetration rate, which reflects the degree of infrastructure construction, and the share of military spending in GDP, which reflects the security measures, have no significant influence on Chinese firms' OFDI, which can be inferred that when investing in Belt and Road partner countries, Chinese enterprises consider less infrastructure and security factors, but more cultural, economic, and technological factors of the host nations.

Besides, we also estimated equation (4), which further includes explanatory variables of cultural distance in six particular cultural dimensions, in order to find their influence on Chinese companies' OFDI. The outcomes of estimating equation (4) are shown in Regression (2) of Table 5. Among these six cultural dimensions, we found that only masculinity (MAS) has a significant negative effect on Chinese firms' OFDI at the 10% significance level, which partially supports hypothesis 2.

Robustness Check

Our research referred to the methods available in existing literature to test robustness (e.g., Qi et al. 2012). It was to recalculate the cultural distance between China and partner nations using Euclidean space distance measurement method (EDI). The formula for EDI index is shown in equation (5), where the symbols represent the identical meaning as those in equation (1).

$$CD_j = \sqrt{\sum_{j=1}^6 \{(I_{ij} - I_{CNj})^2 / V_j\}} \#(5)$$

The results presented in Regression (3) of Table 5 show that the cultural distance calculated by EDI index still has a significant negative impact on Chinese

enterprises' outbound investment at the 1% significance level, which implies that Hypothesis 1 is still valid in this case, thus identifying the robustness of our empirical method.

Table 5. *The Influence of Cultural Distance on Chinese Firms' OFDI*

| Variable | Regression (1) | Regression (2) | Regression (3) |
|----------------|------------------------|------------------------|------------------------|
| | lnOFDI | lnOFDI | lnOFDI |
| CD | -0.588*** (0.220) | | |
| lnGDPCN | 2.390*** (0.818) | 2.333*** (0.829) | 2.383*** (0.818) |
| lnGDP | 1.361*** (0.121) | 1.326*** (0.149) | 1.352*** (0.121) |
| lnTECH | 0.045*** (0.017) | 0.048*** (0.015) | 0.044*** (0.017) |
| INFRA | -0.003 (0.006) | -0.002 (0.006) | -0.003 (0.006) |
| SAFE | 0.102 (0.071) | 0.107 (0.075) | 0.105 (0.071) |
| PDI | | 0.033 (0.167) | |
| IDV | | -0.143 (0.110) | |
| MAS | | -0.187* (0.097) | |
| UAI | | -0.023 (0.072) | |
| LTO | | -0.075 (0.074) | |
| IND | | 0.116 (0.135) | |
| CD_2 | | | -0.763*** (0.286) |
| Cons | -44.244*** (12.595) | -43.622*** (12.801) | -42.619*** (12.610) |
| N | 280.000 | 280.000 | 280.000 |
| R ² | 0.716 | 0.732 | 0.717 |

Standard error in parentheses; * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.
Source: SPSS 16.0 software.

Discussion

In our study, we used the panel data of 40 Belt and Road sample countries from 2014 to 2020 to test the effect of cultural distance on Chinese Companies' OFDI.

In correspondence with most existing studies, our research proves that cultural distance will negatively affect Chinese companies' investment along Belt and Road partner countries. Besides, we also find that farther distance in the particular dimension masculinity will inhibit Chinese enterprises' outbound investment in Belt and Road host countries. Since China gets a high score on the cultural dimension of masculinity, people live and work in Chinese society usually pay more attention to values such as achievements, money, self-confidence, and heroism. Accordingly, the result indicates that Chinese enterprises place greater emphasis on the similarity with the host countries in the cultural dimension of masculinity, which may further reflect that Chinese enterprises pay more attention to performance when making investment decisions in Belt and Road partner countries (Shenkar 2001). In addition, our empirical research also proves that China's GDP, host country's GDP, and host country's technological development level positively influence Chinese enterprises' outward investment choices, which suggests that both home country and host country can promote international business like foreign investment by expanding market size and upgrading technology.

Our research results are similar to those of existing studies. For example, by analyzing the OFDI of Chinese companies into 174 host countries from 2003 to 2009, Drogendijk and Blomkvist (2013) found that cultural distance negatively affects Chinese OFDI, and two cultural dimensions including power distance and uncertainty avoidance significantly negatively affect Chinese OFDI. Besides, the study of Mohsin et al. (2021) found that institutional distance promotes Chinese OFDI, while cultural distance suppresses OFDI. And since the negative effect of cultural distance is greater than the promoting effect of institutional distance, their study emphasized the importance of cultural distance. In their study, subdimensions including masculinity vs. femininity, uncertainty avoidance, and long vs. short term orientation significantly affect Chinese OFDI. Based on the research results, it's found that cultural distance generally negatively affects Chinese enterprises' OFDI, but perhaps due to different samples or other factors, the cultural subdimensions which play significant roles vary.

Overall, our study verifies the impacts of cultural distance and the distance of particular cultural dimension on Chinese enterprises' OFDI, emphasizing that close people-to-people bond is an important requirement for companies to participate in international business. Therefore, enterprises should be aware of the inhibitory effect of cultural distance, take actions to shorten the distance, try to achieve closer interpersonal connections, and thereby create a better cultural environment for their foreign business. It is suggested that enterprises should consider the impact of cultural distance when planning to make outbound investment in Belt and Road partner countries, and actively seek the support of local governments and chambers of commerce. They need to better understand the local culture of the host country, cultivate more cross cultural management talents and strengthen cultural communication and integration with people from the host country, thus weakening the negative impact of cultural distance.

Belt and Road partner countries should pay more attention to exchange and integration in terms of economy, culture and technology. First of all, they should

encourage their enterprises to deeply understand the culture of host countries when investing in other Belt and Road partner countries, maintain an inclusive and receptive attitude towards different cultures, and avoid stereotyping of the society and culture of the host countries. Secondly, since our research results have shown that the economic development level of home and host countries can promote OFDI, Belt and Road partner countries should not only continue to develop their economies, but also establish a win-win situation, in which countries can achieve common progress by strengthening cooperation and investment activities with each other, thereby realizing a positive cycle of investment growth and economic development. Finally, since the level of technological development is also conducive to OFDI, Belt and Road partner countries are advised to attach importance to the cooperation of scientific and technological innovation as well.

Limitations and Suggestions for Further Research

In our study, among the six cultural dimensions, we only find that the difference in masculinity affects Chinese companies' outward foreign direct investment significantly. Besides, due to the use of second-hand data for testing, it is hard to discover how cultural distance and distance of particular cultural dimension exert their influence on Chinese enterprises' OFDI. Also, it is difficult to determine whether there are other cultural factors which are playing significant roles that have been overlooked by using second hand data. Therefore, it is suggested that future research leverage qualitative method to further explore the concrete mechanism by which cultural distance affects Chinese enterprises' investment decisions along Belt and Road countries, as well as to discover as many particular cultural factors as possible that are playing important roles.

Conclusions

In our empirical research, we use random effects models to estimate the panel data, and verify the inhibitory effect of cultural distance on Chinese enterprises' OFDI along Belt and Road partner countries. At the same time, it is also found that the particular cultural dimension of masculinity significantly negatively affects Chinese Companies' OFDI, representing that Chinese firms pay more attention to the similarity with the host country in the masculinity (performance) dimension when making investment choices. Our study offers supplementary validation to the literature related to cultural distance and OFDI. We have verified that cultural distance generally has a negative influence on Chinese OFDI, but the cultural subdimension that plays a significant role varies across different research samples when compared with previous literature. In this regard, given the limitations of our method, we call for more qualitative research, so as to discover how cultural distance and gap of particular cultural dimension affect Chinese OFDI.

We suggest that enterprises should recognize cultural distance and take actions to mitigate its negative impact, such as understanding the culture of the host country, actively seeking support from the government and chambers of commerce, and cultivating more cross cultural management talents. In addition, since we find that the economic development level of China and host countries as well as the technological development level of host countries significantly promote the OFDI of Chinese enterprises, we also suggest that Belt and Road countries should not only strengthen cultural integration, but also focus on the cooperation and exchange in terms of economy and technology.

References

- Anderson JE (1979) A theoretical foundation for the gravity equation. *The American Economic Review* 69(1): 106–116.
- Andrews TG, Nimanandh K, Htun KT, Santidhirakul O (2022) MNC response to superstitious practice in Myanmar IJVs: Understanding contested legitimacy, formal–informal legitimacy thresholds, and institutional disguise. *Journal of International Business Studies* 53(Nov): 1178–1201.
- Azar G, Drogendijk R (2016) Cultural distance, innovation and export performance: An examination of perceived and objective cultural distance. *European Business Review* 28(2): 176–207.
- Barkema HG, Shenkar O, Vermeulen F, Bell JH (1997) Working abroad, working with others: How firms learn to operate international joint ventures. *Academy of Management Journal* 40(2): 426–442.
- Beugelsdijk S, Kostova T, Kunst VE, Spadafora E, Van Essen M (2018) Cultural distance and firm internationalization: A meta-analytical review and theoretical implications. *Journal of Management* 44(1): 89–130.
- Brouthers KD, Brouthers LE (2000) Acquisition or greenfield start-up? Institutional, cultural and transaction cost influences. *Strategic Management Journal* 21(1): 89–97.
- Drogendijk R, Blomkvist K (2013). Influence of cultural distance on Chinese outward foreign direct investment. In *Emerging economies and firms in the global crisis*, 154–178. London: Palgrave Macmillan UK.
- Hofstede G (2001) *Culture's consequences: Comparing values, behaviors, institutions and organizations across nations*. SAGE Publications.
- Hofstede G, Hofstede GJ, Minkov M (2010) *Cultures and organizations: Software of the mind*. New York: McGraw-Hill.
- Johanson J, Vahlne JE (1977) The internationalization process of the firm—a model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies* 8(Mar): 23–32.
- Khan WA, Rahman ZU, Ye J (2023) Exploring the potential determinants of Chinese OFDI towards OBOR nations: an application of gravity model. *Asia-Pacific Journal of Accounting & Economics* 30(4): 1067–1085.
- Kogut B, Singh H (1988) The effect of national culture on the choice of entry mode. *Journal of International Business Studies* 19(Sep): 411–432.

- Mohsin A, Lei H, Tushar H, Hossain SFA, Hossain ME, Sume AH (2021) Cultural and institutional distance of China's outward foreign direct investment toward the "Belt and Road" countries. *The Chinese Economy* 54(3): 176–194.
- Qi JH, Li L, Yang L (2012) Location Choice of Chinese OFDI: Based on the Threshold Effect and Test of Cultural Distance. *Journal of International Trade* 12: 137–147.
- Shane SA (1992) The effect of cultural differences in perceptions of transaction costs on national differences in the preference for licensing. *Academy of Management Proceedings* 1: 122-126.
- Shenkar O (2001) Cultural distance revisited: Towards a more rigorous conceptualization and measurement of cultural differences. *Journal of International Business Studies* 32(Sep): 519–535.
- Yuan QG, Gao C, Yan SL (2018) African Governments' Governance Level and the Location Selection of Chinese Enterprises' OFDI. *World Economy Studies* 10: 121–134.