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Study on the Influencing Factors of China's Outward FDI in RCEP Member Countries

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Abstract: The Regional Comprehensive Economic Partnership (RCEP) is the world's most populous free trade area with the largest economic and trade scale and the most development potential, and it will officially come into force in 2022, providing an opportunity for RCEP member countries to attract investment from China. Based on the information of economic and demographic characteristics of RCEP member countries from 2012 to 2020 and the panel data from China's ODFI, this paper measures and examines the influencing factors of China's direct investment in RCEP member countries by constructing a bidirectional fixed effects panel model of China's direct investment in RCEP countries. It is found that: the host country's net per capita national income, per capita GDP growth rate, merchandise trade and service trade inhibit China's investment in RCEP member countries, while the host country's GDP growth rate, per capita GDP can promote China's investment in RCEP countries, the host country's industry, exchange rate, and legal indices are not the main factors affecting China's direct investment in RCEP, and should be used in the comprehensive investment decision-making when On the basis of considering the unbalanced economic development of each country, the optimal layout of China's direct investment in RCEP member countries should be co-ordinated to provide more opportunities for Chinese enterprises to enter the markets of RCEP member countries.

Keywords: OFDI, RCEP agreement, influencing factors

1. Introduction

In recent years, the new crown epidemic, anti-globalism and trade wars, and geopolitical crises have had a huge impact on global trade security and stability. The progress of the multilateral trading system has been slow, unilateralism and trade protectionism are on the rise, the global supply chain is facing obstacles, industrial cooperation is in the doldrums, and the environment for domestic and foreign economic development is even more intricate and complex. Against this background, Regional Comprehensive Economic Partnership (RCEP), as a free trade agreement with the largest population coverage, the largest economic and trade scale, the most diversified country structure, and the most development potential in the world, has better integrated the differences between different FTAs, and embodied comprehensiveness, advancement, inclusiveness, and openness. advanced, inclusive, open and other characteristics, the signing of RCEP is important for enhancing political mutual trust, improving economic welfare, improving regional governance, and boosting confidence in globalisation [1]. RCEP was initiated by ASEAN and covers the ten ASEAN countries as well as 15 member countries, including China, Japan, South Korea, Australia, and New Zealand. The idea of

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RCEP was first initiated by ASEAN in 2012, and has gone through a period of changes in membership and several leaders' meetings, dozens of rounds of ministerial meetings and formal negotiations, and was bogged down in negotiations at one point midway through the process, before finally being formally signed in 2020 and coming into force in 2022. According to data made public by the World Bank in July 2023, the total exports of RCEP member countries have reached US$5.5 trillion and GDP US$26 trillion, both accounting for 30 per cent of the global economy. After many years of trade exchanges, there has been a long-term stable cooperation foundation among RCEP member countries, which is conducive to giving full play to the advantages of strong economic complementarity among member countries, attention to the mutual interests of regional member countries, strong willingness to cooperate, and the flexibility of the mechanism, etc.[2], and reduce tariff and non-tariff barriers among members. RCEP member countries include both developed and developing countries, which makes the agreement highly inclusive, and can fully utilize the advantages of the agreement. The agreement is highly inclusive and can make full use of the comparative advantages of countries with different levels of development. As an important participant in the economic integration of the Asia-Pacific region, China has played a central role in promoting the development of RCEP by reflecting the demands of countries for trade changes in the RCEP programme while taking into account the realities of developing countries, and it is an important member of RCEP as well as a regional coordinator. On the one hand, the document "Responding to New Types of Disputes Faced by Enterprises Going Global with Professional Services" issued by China's Ministry of Commerce on 10 July 2023 requires that, against the backdrop of the RCEP agreement coming into effect in China, China can increase the early and pilot implementation of relevant opening-up measures in the FTZs and conduct sufficient risk assessment of relevant opening-up measures to ensure a balance between financial opening-up and national security, and by continuously It should also improve its professional skills to cope with the new controversies surrounding the globalisation of Chinese enterprises and grasp the new opportunities of the new era. China's strategy of going global is aimed at promoting its enterprises to conduct business globally, gain access to resources and markets through outbound investment, and promote industrial upgrading and job growth. And RCEP, as a regional FTA comprising 15 Asian countries, covers a number of large economies including China. The signing of RCEP provides a broader space for Chinese enterprises to expand their markets and look for investment opportunities, and its market potential and development prospects are valued by Chinese enterprises. On the other hand, China, as the world's largest manufacturing centre and one of the largest service markets, has a huge market size and consumption potential, and plays an important role in the global supply chain. Other member countries can participate in a wider supply chain system by strengthening economic ties with China, thereby increasing the global competitiveness of their products to gain a larger market share and business opportunities, and obtaining more business opportunities and returns on investment in the areas of manufacturing, science and technology innovation, and infrastructure construction. Therefore, it is of great practical significance to explore the influencing factors of China's outward FDI in RCEP member countries in order to promote China's foreign economic and trade cooperation, consolidate the domestic economic cycle, fight against trade protectionism, and push forward the deep development of economic integration and economic globalisation in the Asia-Pacific region.

The general structure of this paper is arranged as follows. Section 2 is the literature review, Section 3 is the theoretical analysis and research hypotheses, Section 4 is a brief introduction of the sample selection and data sources as well as the empirical model setting, Section 5 is the analysis of empirical results, and Section 6 is the conclusions and policy recommendations.

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2. Literature Review

Since the 21st century, economic globalisation has developed in depth, and a new pattern of international division of labour has emerged. The world economic system has changed from focusing on trade to focusing on production, and internationalised production is mainly carried out through outward investment. In the face of the new international division of labour, China's outward investment policy in recent years has gradually changed from "bringing in" to "bringing in" and "going out", giving full play to China's unique production advantages, and gradually becoming an outward foreign direct investment (OFDI) centre. China has gradually become one of the major countries in OFDI by giving full play to its unique production advantages. In recent years, China's outward FDI has developed rapidly, covering developed economies such as the United States, Japan and Germany, as well as many other developing countries, and the amount of outward FDI has continued to grow. The performance of OFDI varies in different countries, in developed countries, FDI is associated with policy determinants such as GDP growth, trade openness and freedom indices, while in developing countries, FDI exhibits a correlation with economic determinants such as Gross Fixed Capital Formation (GFCF), trade openness, and efficiency variables [3]. China's OFDI is affected by many aspects. From the perspective of national policies, China's "Belt and Road" policy has significantly increased green technology spillovers from China's OFDI to countries along the routes by increasing R&D investment, improving environmental regimes, and accelerating the flow of factors of production, and this effect is more pronounced in low- and middle-income countries with high-quality institutions or poor environmental performance [4]. From a labour perspective, the 2008 Labour Contract Law of the People's Republic of China significantly increased China's OFDI because the introduction of labour-related laws increased the probability of OFDI by Chinese firms through mechanisms such as raising wages, fixed labour costs and labour protection levels [5]. From the perspective of investment risk, the country's risk has an important impact on the location choice of OFDI by enterprises, and both persistent and non-persistent risks of the host country will have an inhibiting effect on OFDI by Chinese enterprises [6]. Since the various risks of the host country greatly hinder the OFDI of Chinese SOEs, in order to pursue natural resources, Chinese SOEs choose to take risks, so large SOEs with fixed capital show a higher probability of OFDI [7].

Based on the theoretical analysis of OFDI, the traditional OLI theory is built on the basis of "monopoly advantage", covering both the macro and micro levels of economic activities, explaining the causes of OFDI, location choice and other international economic activities, and pointing out that the choice of foreign direct investment mainly depends on three aspects. factors. The first is the ownership advantage, i.e. the investor's unique advantages in terms of intangible or tangible assets, economies of scale, etc., which make the enterprise more competitive. The second is location advantage, i.e. the investee country has advantages in terms of low labour costs, easy access to raw materials, easy access to land, etc., which is a key factor for the investor to decide where to locate its international investment, and the advantageous region is more likely to attract the investor to carry out investment activities. The third is the internalisation advantage, where investors combine and internalise ownership advantages with location advantages to reduce transaction costs and bring more economic benefits to investors.

RCEP has received extensive attention from scholars at home and abroad since it was proposed in 2012, and many scholars at home and abroad have conducted rich theoretical as well as empirical research on RCEP from different perspectives and carried out prospective discussions before the RCEP agreement was formally reached, which provides an important reference for the study of this paper. From the perspective of social welfare, Chen and Ni believe that the establishment of RCEP can enhance the overall welfare of member countries, and RCEP member countries can achieve mutual benefit and win-win situation in the region [8]. Using the CGE model, Meng and Zheng pointed out that from the perspective of trade liberalisation, RCEP brings higher welfare to East Asian countries than other trade agreements and that RCEP member countries can gain greater benefits from trade liberalisation [9]. From the perspective of economic development, the search for regional economic integration has become a breakthrough for the Asia-Pacific countries to maintain economic growth, and to improve the quality of FTAs in the Asian region has become an important trend in regional economic integration [10]. From the perspective of foreign trade,China's trade efficiency to different RCEP member countries varies and has a greater trade potential, in which import clearance time, liner shipping, monetary and financial freedom, government expenditure and efficiency, and FTAs all have different degrees of impact on trade efficiency [11].The increase in the level of trade facilitation in RCEP member countries can significantly promote the release of China's trade and export potential to them, thus bringing more space for China's export growth [12].

In addition, some scholars compare and analyse the U.S.-led TPP agreement with the ASEAN-led RCEP agreement, among which Chen and Zhao adopt the research perspective of wide-area integration, analyse and compare the formation, development and signs of the two models of RCEP and TPP, and believe that the selection of the RCEP model for East Asian regional economic cooperation in the post-crisis era is more conducive to the good East Asian regional integration development [13]. Meng and Zheng use the CGE model to assess and analyse the possible impact of the final three results of the TPP and RCEP negotiations on the member countries, and believe that the RCEP member countries and the United States are able to obtain greater benefits from trade liberalization, and China should focus on the promotion of the construction of RCEP at present [14]. It can be seen that the vast majority of scholars for the current situation and development prospects of RCEP and trade liberalisation hold a positive attitude.

It has been shown that liberalisation under RCEP affects FDI through both FDI liberalisation and trade liberalisation, and these two paths encourage a significant increase in FDI to China [15].Pasindu et al. consider the Logistics Performance Index, the Global Competitiveness Index and the interest rate to be the three main factors affecting FDI, of which the LPI has a significant impact on the FDI of India , Korea, Lebanon and Oman positively affected FDI, while China, Kuwait and the Philippines were negatively affected [16]. Other studies have shown that the host country's GDP, openness to the outside world, labour costs, and technological level can affect the country's ability to absorb OFDI.

Although there has been a lot of literature analysing the impact of the RCEP agreement on China's economic and trade development, little literature has been devoted to analysing the impact factors of China's direct investment in RCEP member countries. Based on this issue, this paper adopts the "Statistical Bulletin of China's Outward Foreign Direct Investment" jointly released by the Ministry of Commerce of China and the National Bureau of Statistics of China as well as the relevant data of World development indicators, constructs a two-way fixed effect panel model, and focuses on the influence factors and the internal mechanism of China's direct investment in the RCEP member countries. The study focuses on the influencing factors of China's direct investment in RCEP member countries and its internal mechanism, and provides theoretical references for the deepening of theories in the field of outward investment and the implementation of trade policies. It is found that the factors affecting China's direct investment in RCEP countries mainly include host country GDP, host country per capita income, merchandise trade and service trade.

The research contribution of this paper is mainly reflected in the following two aspects:

First, from the perspective of China's economic development, the study of the impact factors of China's direct investment in RCEP member countries is of great significance for unclogging China's regional industrial chain and supply chain, utilising the two domestic and international markets and two kinds of resources, and helping China to accelerate the formation of a new development pattern of "domestic and international double cycle", which is highly innovative in terms of the perspective of the study. Secondly, from the perspective of the economic development of the Asia-Pacific region, the study will be more innovative.

Secondly, from the perspective of economic development in the Asia-Pacific region, exploring the trade relations between China and RCEP member countries can help build a safe and stable multilateral trade order, maintain the multilateral trading system and create a favourable market environment in the Asian region, which is of positive significance for the continuous promotion of the process of Asia-Pacific economic integration, and it is prospective in terms of the content of the study, which has supplemented the research literature in this area.

3. Theoretical Analysis and Research Hypothesis

The increase in demand and consumption capacity brought about by the GDP growth of the host country provides more business opportunities and development space for Chinese enterprises, which makes Chinese enterprises wish to take advantage of the market opportunities to enter new markets and expand their business by making direct investment in the country, thus promoting China's outward foreign direct investment (OFDI).

According to the theory of market expansion effect, when a country's GDP grows, the market size expands accordingly. China, as a country with a large market, benefits from the market expansion effect of the host country's GDP increase. As the host country's economy grows, Chinese firms can see more business opportunities and potential consumers, which prompts them to increase their direct investment in the country.

According to the theory of technology and knowledge acquisition, an increase in host country GDP is usually accompanied by advances in technology and knowledge. Chinese firms hope to acquire new technologies, management experience and professional knowledge from the host country through direct investment in the country. The acquisition of these technologies and knowledge can promote the innovation ability and competitiveness of Chinese enterprises and further promote China's outward FDI.

According to the theory of international capacity co-operation, an increase in the GDP of the host country contributes to the development of capacity co-operation. China has been actively promoting international capacity co-operation over the past few years, sharing productive capacity and technological advantages through direct investment in host countries. When the economies of host countries grow, they are more likely to become partners of Chinese enterprises in joint production and manufacturing for mutual benefit.Based on the above analysis, this paper proposes the following hypotheses:

H1: The increase in the GDP growth rate of host countries promotes the growth of OFDI

China's OFDI is affected by a number of factors, including, but not limited to, the level of economic development, market size, industrial policy, government support, investment environment, and cost advantages. While the legal index can provide a reference, it is only one of them and may not be the most important factor in decision-making.

As one of the indicators for assessing the investment environment of a host country, the legal index can be used to measure the degree of legal protection and the level of the rule of law, the level of which correlates with a country's investment environment and investment attractiveness. Investors usually consider the soundness of the host country's legal system, the extent of the rule of law, as well as the reliability and transparency of the law, etc. A higher legal index may imply a more stable and predictable legal environment, which has a positive impact on attracting investment. At the same time, legal indices can also be used to assess investment risks in host countries. A lower legal index may imply a weak and uncertain legal system, and there may be many legal risks, such as imperfect protection of property rights, difficulties in enforcing contracts, etc., which may affect investor confidence and investment decisions in the country, and seeking a good operating environment of the rule of law in the host country of investment and the protection of private property is an important motivation for China's outward foreign direct investment [17]. Coase's theory of property rights argues that an effective property rights system is essential for the smooth running of economic activities. The role of property rights in the economy is to ensure the rational allocation and effective use of resources, promote investment and create economic value. The law, as a mechanism for regulating behaviour, establishes a clear definition of property rights and a mechanism for their protection. It plays an important role in protecting and preserving property rights, thereby guiding and incentivising investment. Therefore, legal indices usually indirectly influence China's OFDI by assessing the investment environment, investment risks, legal environment, and the protection and preservation of property rights.

Although the legal index itself does not directly affect investment decisions, a higher legal index usually implies a more stable, transparent and reliable legal environment, which can provide better legal protection and institutional safeguards, increase investors' confidence in the host country, and encourage them to make more direct investments.Based on the above analysis, this paper proposes the following hypothesis:

H2: The improvement of host country's legal index promotes OFDI

Commodity trade and service trade are two major forms of international economic exchanges, and there is a certain relationship between them and China's OFDI. Merchandise trade mainly relies on inter-firm transactions rather than direct investment. Firms realise profits by producing and selling goods, not by establishing direct investment projects in other countries. Trade in services, on the other hand, involves services provided by multinational corporations or individuals, and China can provide a wide range of services to other countries and earn income from them. Similar to trade in goods, trade in services also relies mainly on business-to-business transactions rather than direct investment.

According to the capital flow restriction theory, the scale and trend of China's outward FDI is subject to the Chinese government's regulation and control of capital flows. While trade in goods and services can contribute to economic growth and resource allocation, OFDI may be restricted by the government because direct investment involves the physical movement of capital and the realignment of funds across borders.

According to the theory of prioritising domestic demand, China's economic development still relies on demand from the domestic market, and although trade in goods and services can bring in external demand and technology transfer, China may focus more on satisfying domestic demand than on finding markets and expanding production capacity through OFDI. OFDI may not be the preferred method for Chinese firms while domestic demand remains strong.

According to the risk-return trade-off theory, OFDI involves certain risks and costs, including political risks, legal risks, and cultural differences. In contrast, trade in goods and services may have lower risks and higher returns. Therefore, Chinese enterprises may prefer to participate in the international market through trade rather than choosing the direct investment method.Based on the above analyses, this paper proposes the following hypotheses:

H3: The development of merchandise trade and service trade in host countries inhibits OFDI

Inflation, as one of the factors affecting China's OFDI, will not directly affect China's OFDI, although it will have a certain impact on the country's business environment as well as the economic situation.

From the perspective of long-term investment objectives, Chinese enterprises usually make OFDI for long-term development and benefits, not just for short-term returns. They are more concerned about long-term market prospects, resource allocation and technical cooperation, and will not be affected by short-term inflation fluctuations.

From the perspective of diversified investment layout, Chinese enterprises usually diversify their investment layout when making OFDI to diversify risks and improve returns. They will choose

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different countries and regions to invest in to balance the volatility and risk among various markets, thus reducing the impact of inflation on the overall investment portfolio. For example, as inflation rises in Vietnam, Chinese companies may be more cautious in assessing potential investment targets, selecting industries and projects that can withstand inflationary shocks and have stable growth prospects, and adopting a diversification strategy by spreading their investments across different countries and regions. In this way, even if the inflation rate in Vietnam rises, Chinese companies' investments in other countries can still balance and diversify the overall risk.Based on the above analysis, this paper proposes the following hypothesis:

H4: Inflation will not directly affect China's OFDI

4. Research Design

4.1. Sample Selection and Data Source

This paper selects the 15 RCEP member countries from 2012 to 2020 as the research sample, including China, Japan, South Korea, Australia, New Zealand, Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam 15 countries. The host country's net national income per capita, GDP, industrial development status, inflation rate, merchandise trade volume, trade volume of goods and services, official exchange rate, natural resources and legal status are selected as explanatory variables, and China's outward FDI stock is selected as an explanatory variable. Among them, the data of the explanatory variables are all from worldbank, and the data of China's outward FDI stock are from the statistical bulletin of China's outward FDI in the year of 2021, and the specific descriptions of the variables are shown in Table 1.

4.2. Empirical Model and Variables

In order to test the proposed hypothesis, this paper constructs the following regression model. Where t represents year, i represents country differences, y represents China's OFDI stock, x1, x2, etc. represent explanatory variables, and εt represents the disturbance term. This paper expects that if β is positive, it indicates that the corresponding factors promote China's OFDI; on the contrary, if β is negative, it indicates that the corresponding factors inhibit China's OFDI.

$$y_{it} = \beta_0 + \beta_1 X_{1,it} + \beta_2 X_{2,it} + \cdots + \lambda_t + u_i + \varepsilon_{it} \tag{1}$$

Table 1: Definition of variables.

Variable symbols	Variable definitions
y	OFDI
x1	Adjusted net national income per capita (annual % growth)
x2	Adjusted net national income per capita (current US$)
x3	GDP (current US$)
x4	GDP growth (annual %)
x5	GDP per capita (current US$)

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Table 1: (continued).

x6	GDP per capita growth (annual %)
x7	Industry (including construction), value added (% of GDP)
x8	Industry (including construction), value added (annual % growth)
x9	Inflation, consumer prices (annual %)
x10	Merchandise trade (% of GDP)
x11	Net trade in goods and services (BoP, current US$)
x12	Official exchange rate (LCU per US$, period average)
x13	Total natural resources rents (% of GDP)
x14	Trade in services (% of GDP)
x15	Women Business and the Law Index Score (scale 1-100)

5. Empirical Results and Analyses

5.1. Descriptive Statistics

Table 2 shows the results of descriptive statistics for each variable. Among them, the sample observation of OFDI is 140, the mean value is 866745.6, the minimum value is 6635, the maximum value is 6720228, and the standard deviation is 1236948, the gap between the minimum value and the maximum value is large and the standard deviation is large, which indicates that there is a large gap in the amount of China's investment in different countries, and the amount of direct investment in Brunei, Japan, New Zealand, and the Philippines is small, and the amount of direct investment in countries such as The maximum value of Adjusted net national income per capita is 53834.81, the minimum value is 821.8124, and the standard deviation is 16840.58, the difference between the maximum value and the minimum value is larger, and the distribution is more dispersed, which The mean value of Women Business and the Law Index Score is 75.33036, the maximum value is 97.5, and the minimum value is 50, which means that there is a big difference in the Women Business and the Law Index scores of different countries. The maximum value of GDP growth is 10.50778, the minimum value is -17.91294, and the standard deviation is 3.716585, which indicates that there are large differences in the GDP growth of different countries but the overall distribution of GDP growth is more concentrated. There are some differences in the control variables among the sample countries.

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Table 2: Descriptive statistics.

Variable	Obs	Mean	Std. Dev	Min	Max
y	140	866745.6	1236948	6635	6720228
x1	95	1.324424	12.3624	-98.68879	11.01493
x2	126	16559.1	16840.58	821.8124	53834.81
x3	140	7.94e+11	1.30e+12	1.02e+10	6.27e+12
x4	140	3.452757	3.716585	-17.91294	10.50778
x5	140	21270.24	21810.05	950.4825	72794
x6	140	2.443079	3.633242	-18.48496	12.19672
x7	137	33.8697	10.16321	20.09577	72.65682
x8	138	3.963178	5.06249	-20.64502	21.40289
x9	138	2.229832	2.043954	-1.260506	9.454172
x10	140	83.393312	55.21151	25.03719	267.079
x11	138	1.38e+10	3.97e+10	-1.29e+11	1.25e+11
x12	139	3887.536	6424.894	.965801	23208.37
x13	126	4.370902	5.478099	.0001615	26.73938
x14	138	21.10315	24.5816	2.004156	119.7558
x15	140	75.33036	13.83099	50	97.5

5.2. Regression Analysis

Table 3 reports the regression results of the factors affecting China's direct investment in RCEP member countries. Among them, Column (1) is the result of mixed regression, Column (2) is the result of controlling for country fixed effects, Column (3) is the result of controlling for year fixed effects, and Column (4) is the result of controlling for both country fixed effects and year fixed effects. The results in column (4) show that the regression coefficient of Adjusted net national income per capita is -0.0002385 and is significantly positive at the 10% level, which means that for every $1,000 increase in net national income per capita, China's OFDI to RCEP member countries decreases, on average, by 23.85%, which may be due to the fact that with the increase in The regression coefficient of GDP growth is 0.6766621, and it is significantly positive at the 1% level, indicating that annual GDP growth and OFDI are positive. GDP growth is positively correlated with OFDI, i.e., an increase in the host country's annual GDP growth rate can promote Chinese OFDI, which indicates that Chinese enterprises tend to invest in countries with positive GDP growth rates, proving the research hypothesis H1.The regression coefficient of GDP per capita is 0.0001503, and it is significantly positive at the 10 per cent level, which is that GDP per capita increases by 15.03% for every $1000 increase in GDP per capita, which indicates that GDP per capita is positively correlated with OFDI, i.e., the growth of GDP per capita in the host country promotes China's outward FDI. The regression coefficient of GDP per capita growth is -0.6698470, and it is significantly positive at the 1% level, which indicates that the regression coefficient of GDP per capita growth and OFDI is positively correlated, which proves the research hypothesis H1. per capita growth is negatively related to OFDI, which may be due to the fact that as the growth rate of GDP per capita increases, the cost of labour in a country usually rises as well. This means that the country's labour costs are relatively higher and it loses a certain competitive advantage over other low-cost labour countries. Especially for industries that require a large number of labour, such as manufacturing, the rise in labour costs leads to an increase in production costs, which reduces the attractiveness of outward investment. Taking India as an example, if India's per capita GDP grows rapidly and labour costs rise, Chinese companies may invest less in India's manufacturing sector. At the same time, India's large consumer market will attract Chinese firms to invest more resources in goods and services that satisfy domestic market

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demand. The regression coefficients of Merchandise trade and Trade in services are -0.0089858 and -0.0569968, respectively, and are significantly negative at 10% and 5% levels, which indicates that The increase of Merchandise trade and Trade in services instead inhibits China's OFDI, probably because the increase of Merchandise trade and Trade in services can bring a series of economic benefits and convenience, which reduces the demand of China's OFDI.

Meanwhile, we can notice that the regression results of Industry value added (% of GDP), Official exchange rate, Inflation, consumer prices, Total natural resources rents and Women Business and the Law Index Score regression results are not significant, which indicates that Industry, Exchange rate, Inflation, Total natural resources rents in host countries and the Law Index do not directly affect OFDI, proving that research hypothesis H2 is not valid and research hypotheses H4 is valid. At the industrial level, China has developed into one of the largest manufacturing countries in the world, covering a wide range of industrial sectors. Therefore, when Chinese firms make OFDI, they are not limited to the same kinds of industries. At the exchange rate level, OFDI often involves long-term contracts and investment plans, including capital investment, equipment procurement, and talent training. These decisions and the choice of partners are usually based on stable expectations rather than short-term exchange rate fluctuations. Enterprises are more concerned about the returns and risks of the investment project itself rather than short-term changes in exchange rates. From a legal perspective, when Chinese enterprises make outward FDI, they are mainly concerned with business interests and market potential rather than just the legal environment of the target country. They pay more attention to factors such as local market size, consumer demand, competitive conditions and development prospects. The legal index is only one of the factors, and enterprises usually include it in their comprehensive consideration rather than a decisive factor.

Table 3: Regression analysis.

	(1)	(2)	(3)	(4)
	lny	lny	lny	lny
x1	0.0130472***	0.0036482	0.0042136	0.0047008
	(0.004)	(0.005)	(0.005)	(0.004)
x2	-0.0001965	-0.0001579	-0.0002516***	-0.0002385*
	(0.000)	(0.000)	(0.000)	(0.000)
x3	-0.0000000	0.0000000	-0.0000000	-0.0000000
	(0.000)	(0.000)	(0.000)	(0.000)
x4	-0.3153531	0.2793303	-0.0255602	0.6766621***
	(0.753)	(0.545)	(0.507)	(0.125)
x5	0.0001391	0.0000439	0.0001841***	0.0001503*
	(0.000)	(0.000)	(0.000)	(0.000)
x6	0.2476891	-0.3011465	-0.0093478	-0.6698470***
	(0.789)	(0.569)	(0.518)	(0.129)
x7	-0.0663729**	0.0088726	-0.0714736***	-0.0455096
	(0.029)	(0.066)	(0.025)	(0.030)
x8	0.0479099	0.0116800	0.0531521	0.0134153
	(0.046)	(0.025)	(0.036)	(0.022)
x9	-0.0210793	-0.0020785	0.0147865	-0.0122569
	(0.071)	(0.034)	(0.049)	(0.020)
x10	-0.0069233	-0.0110068	-0.0078343*	-0.0089858*

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Table 3: (continued).

	(0.005)	(0.009)	(0.005)	(0.004)
x11	-0.0000000***	-0.0000000	-0.0000000**	-0.0000000*
	(0.000)	(0.000)	(0.000)	(0.000)
x12	0.0000642*	0.0002557***	0.0000599**	0.0000506
	(0.000)	(0.000)	(0.000)	(0.000)
x13	-0.0688103	-0.0546661	-0.0340806	-0.0543774
	(0.052)	(0.070)	(0.048)	(0.039)
x14	0.0038085	-0.0492096	0.0091269	-0.0569968**
	(0.020)	(0.033)	(0.014)	(0.020)
x15	-0.0435568***	0.1300642	-0.0353334**	0.0224179
	(0.016)	(0.080)	(0.017)	(0.035)
_cons	18.8979399***	3.9540687	16.9089842***	13.3712169***
	(2.357)	(7.344)	(2.016)	(3.202)
N	93.0000000	93.0000000	93.0000000	93.0000000
r2		0.4534453		0.8875680
ar2				

Standard errors in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

6. Conclusion and Policy Recommendations

The RCEP agreement is a comprehensive, wide-ranging, and inclusive regional economic and trade agreement that aims to promote trade and economic cooperation among member countries, facilitate intra-regional economic integration, and create more business opportunities for member countries. The entry into force of RCEP will, on the one hand, be beneficial for Chinese enterprises to seek for better investment opportunities in member countries, to reduce production costs, and to acquire advanced production technologies. On the other hand, member countries can participate in a wider supply chain system by absorbing direct investment from China. Exploring the impact factors of China's direct investment in RCEP member countries will provide an important reference for member countries to attract investment and Chinese enterprises to make decisions.

The classical OLI theory of OFDI considers ownership advantages, location advantages and internalisation advantages as the reasons for investment generation. From the perspectives of labour, investment risk and national policy, labour contract law, national sovereignty risk and Belt and Road policy all have an impact on FDI. Most of the established studies focus on the economic and trade impact of RCEP coming into effect on China, but fewer studies explore the impact factors of China's direct investment in RCEP member countries.

Based on the theories of market expansion effect, Coase's property rights theory, capital flow restriction, diversified investment, and China's resource strategy, this paper puts forward five hypotheses, which argue that the increase of host country's GDP promotes the growth of OFDI, the increase of host country's legal index promotes OFDI, the development of host country's commodity trade and service trade inhibits OFDI, and the inflation doesn't affect China's outward foreign direct investment directly. The results of the study show that China's investment in RCEP member countries is mainly affected by the host country's net per capita national income, GDP growth rate, per capita GDP, per capita GDP growth rate, merchandise trade and service trade. Among them, the host country's net per capita national income, per capita GDP growth rate, trade in goods and trade in services have a negative impact on China's investment there, and for every US$1,000 increase in net

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per capita national income, China's OFDI in RCEP member countries decreases by 23.85 per cent on average. While the GDP growth rate and GDP per capita of the host country have a positive impact on China's direct investment in the locality, for every $1,000 increase in GDP per capita, OFDI increases by 15.03 per cent, proving the validity of research hypotheses H1 and H3. As these factors affecting direct investment are involved to different degrees in the RCEP agreement, this provides a theoretical basis for understanding the impact of the RCEP agreement on China's direct investment in the Asia-Pacific region.

Based on the conclusions of the study, this paper puts forward the following policy recommendations: under the trend of increasing uncertainty in global economic cooperation, China should continue to play the role of a great power stabiliser, focus on eliminating the non-efficiency factors of China's direct investment in the RCEP member countries, improve the efficiency of China's investment, and actively push for the facilitation of trade and the improvement of market access among the RCEP member countries. On the basis of comprehensive consideration of the imbalance of economic development among countries, it should coordinate the optimal layout of China's direct investment in RCEP member countries, promote cooperation with RCEP member countries by opening up the market, optimising the investment environment, strengthening trade promotion and production capacity cooperation, and actively participate in the process of regional economic integration in order to achieve common development.

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