



# Examining the Influence of the Belt and Road Initiative on Jiangsu's Outward Foreign Direct Investment: Trends, Drivers and Challenges

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## **Author's contribution**

*The sole author designed, analysed, interpreted and prepared the manuscript.*

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## **ABSTRACT**

The proposal of "One Belt, One Road" has led to friendly political and economic cooperation between China and the countries along the route, and the "One Belt, One Road" strategy has had a great impact on the outward foreign direct investment of China and the countries along the route. In the process of promoting the strategy, China has realized friendly economic exchanges and exchanges of talents and technologies with various countries and regions. This paper analyzes the OFDI data of Jiangsu Province in the past ten years to study the impact of the "Belt and Road" initiative on OFDI in Jiangsu Province. At the same time, through the analysis of the causes of OFDI and the current situation of OFDI in Jiangsu Province, this paper finds that the "Belt and Road" Initiative has promoted OFDI in Jiangsu Province, and puts forward corresponding countermeasures and suggestions for the further development of OFDI in Jiangsu Province. It also proposes corresponding countermeasures for the further development of OFDI in Jiangsu Province. The province will make reasonable use of government policies, talent introduction and financial mechanisms to optimize its industrial layout and enhance its economic strength.

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## 1. INTRODUCTION

Since General Secretary Xi proposed the construction of the “Belt and Road”, China has signed cooperation documents with more than 140 countries, a large number of projects have been successfully concluded, and friendly and cooperative relations among governments around the globe have shown signs of prosperity. In accordance with the “Five Links” cooperation principle, China has been cooperating with countries along the “Belt and Road” in order to effectively improve the level of investment facilitation and make the investment environment in countries along the “Belt and Road” more attractive. After years of development, the “Belt and Road” has become an important practical way to build a new pattern of domestic and international bilateral circuit development [1,2]. In this context, Chinese enterprises have accelerated their overseas investment, especially in the provinces and regions along the Belt and Road, and actively participated in investment cooperation with the countries along the Belt and Road. This paper analyzes the impact of the “Belt and Road” initiative on outward foreign direct investment at the micro level of Jiangsu Province [3,4]. The research data comes from the Statistical Yearbook of Jiangsu Province, and analyzes the public data of outward foreign direct investment of Jiangsu Province in the past ten years by using the research methods of comparative analysis and data analysis [5-9]. On the basis of the research results, corresponding policy recommendations are proposed. Jiangsu Province actively participates in the construction of “Belt and Road” to find new opportunities for the province's economic development and add new impetus to economic growth.

## 2. LITERATURE REVIEW

From the perspective of the global economy, the world is currently in a downward economic cycle, with a marked lack of economic growth momentum, and the world economic landscape is characterized by complexity and change. Developed countries are gradually moving towards recovery after the recession, but the pace is still heavy; while developing countries are also facing development difficulties and slowing growth. Scientific and technological progress continues to bring about potential changes in the

global industrial division of labor and economic pattern, which in turn profoundly affects the world's political and economic pattern and the balance of power. After decades of development, China has occupied an important position in the global economic system, and is gradually becoming an important engine and stabilizing force driving world economic growth. From the perspective of the domestic economy, China is standing at the transition point from high-speed growth to medium-high growth, and the industrial structure continues to be optimized and upgraded, with an urgent need to realize the transformation from factor-driven to innovation-driven. In the process of industrial transformation, China has ushered in new strategic opportunities for economic growth as well as faced multiple challenges. In the face of these challenges, China needs to deepen the supply-side structural reform, intensify its innovation-driven efforts, and promote high-quality economic development to cope with the complex changes in the domestic and international economic environment [10]. “As a major national strategy personally planned and promoted by General Secretary Xi Jinping, the Belt and Road Initiative has a far-reaching significance that goes beyond the scope of purely regional planning, and constitutes a brand-new strategic framework for national development. The initiative's primary function is to strengthen regional synergy, optimize the country's open-door layout, and help balance the geographical pattern of the country's economic development. Secondly, this initiative also shows unique value at the geopolitical level. By building the Belt and Road Initiative, China can build a wider diplomatic network and provide a new path for the stable development of China-U.S. relations. Finally, the Belt and Road Initiative also has economic significance. Through cooperation with developing countries along the Belt and Road Initiative, China can effectively transfer excess domestic production capacity through infrastructure investment, and at the same time obtain strategic resources from energy-rich countries along the Belt and Road Initiative, so as to achieve optimal allocation of resources and complementarity, and to promote the sustainable development of the national economy [11]. Li. (2024) believes that China's direct investment in the countries along the Belt and Road is in the state of “underinvestment”, and the investment potential of different countries varies greatly [12]. At the national level, China's per capita income

level, the level of innovation, the size of the host country's labor force, and the degree of economic freedom of the host country will all have a positive impact on China's investment in countries along the Belt and Road. Liu et al. [13] believes that China's direct investment in the "Belt and Road" countries has an obvious effect on the high-quality development of enterprises, while the growth of real GDP, the increase in the output value of the information technology services industry and the increase in the producer price index have an obvious effect on the high-quality development of enterprises [14]. Li et al. [15] argue that in the context of promoting the construction of the "Belt and Road", improving the policy and service system for promoting outward investment is an important measure for China to promote the high-quality development of outward investment and realize the high level of opening up to the outside world, and it is also an important embodiment of adhering to and perfecting the socialist system with Chinese characteristics, and advancing the modernization of the country's governance system and governance capacity[16]. Pan et al. [17] argued that OFDI can promote the upgrading of the industrial structure of the home country and is important for building a new pattern of double-cycle development [17].OFDI can enhance the absorptive capacity of technological spillover and the optimal allocation of factors, accelerate the formation of a new pattern of high-level opening up in the two directions of "going out" and "bringing in", and vigorously promote OFDI by domestic enterprises, which can promote the structure of the domestic industry and the effect of upgrading. The effect of upgrading. Zhuang et al. [18] argued that China's OFDI significantly reduces the incidence of poverty in developing countries and effectively alleviates local poverty [18]. China's direct investment in developing countries plays a poverty-reducing role through three mechanisms: capital formation, trade promotion and technology spillover. There are few articles in China that study the current situation of outward FDI from a single province in the context of the Belt and Road Initiative. It is an innovation for this paper to focus on Jiangsu province at the provincial micro level in the context of the "Belt and Road" initiative.

### **3. RESEARCH METHODOLOGY AND DATA SOURCES**

This article uses comparative analysis and data analysis to analyze the current situation of OFDI

from Jiangsu Province after the "Belt and Road" initiative was proposed, and puts forward corresponding policy recommendations. The data of this article are from the "Statistical Yearbook of Jiangsu Province", and the missing data are supplemented by linear interpolation.

## **4. DRIVERS OF OUTWARD INVESTMENT**

### **4.1 Open up a New Market**

The export of products cannot be separated from the support of a large number of foreign buyers, so actively developing and maintaining foreign markets is crucial to the long-term development of enterprises. With the rapid advancement of information technology, domestic and foreign enterprises can realize efficient communication and contact through online platforms. However, for enterprises with large-scale investment, it is not enough to rely only on online communication. Setting up branches or business service platforms abroad has significant advantages for both domestic and foreign companies. Not only does it provide more direct service support, but it also helps companies to obtain detailed information about the markets in the importing and exporting countries, thus helping them to further expand their market share. Exporting products involves numerous and complex procedures, and each step of the process may encounter unforeseen problems that may bring potential losses to the enterprise. Therefore, it is particularly important to set up an export wholesale and retail organization in the target market, which not only helps to strengthen the communication and collaboration between the domestic and foreign markets, but also enables the enterprise to directly face foreign customers to obtain first-hand market and customer information. OFDI enterprises can better understand the local market situation to reduce the blindness of investment decisions, and based on the information obtained to develop products that better meet the needs of local consumers.

### **4.2 Cost Advantage**

As costs in the domestic factor market continue to rise, the past development model of simply relying on cheap labor to gain a competitive advantage is no longer applicable. In order to maintain and enhance the cost advantage of their products, some forward-looking production enterprises have begun to set their sights on regions with cheaper labor costs and relocate their factories to these emerging markets in order

to continue to maintain their competitiveness in the international market. This process of geographic relocation of enterprises is not purely spatial displacement, but also leads to the synergistic development of the relevant industry chain upstream and downstream. Especially for Jiangsu Province, the rise of labor and other factor costs has brought unprecedented challenges to the local labor-intensive manufacturing industry. In order to cope with this situation, enterprises have begun to actively look for investment targets with more reasonable prices of production factors, so as to realize the reduction of production costs through the optimization of resource allocation. This not only helps enterprises to maintain their advantages in the fierce market competition, but also is a key path for enterprises to maximize profits.

### 4.3 Avoiding Trade Barriers

With the rapid growth of China's export trade and the continuous accumulation of long-term trade surplus triggering the dissatisfaction and concern of some countries, the transformation of this economic pattern has made China the country that suffers the largest number of anti-dumping investigations globally. Not only developed countries, but also some developing countries have also put forward trade barriers against China, these countries have adjusted their economic policies, through the setting of tariffs, quota restrictions, non-tariff barriers and other means, trying to limit the export of Chinese products, to protect their own industries and markets. In the face of these trade barriers, Chinese enterprises need to adopt a variety of strategies to deal with them. Some trade barriers can be circumvented through technological innovation and industrial upgrading, and upgrading the technological content and added value of products to reduce the risk of substitution. However, some trade barriers are difficult to overcome through technological innovation, such as non-tariff barriers caused by political factors and cultural differences. Outward investment has become an effective means to overcome trade barriers, which can not only avoid trade barriers, but also better integrate into the local economy to enhance brand influence and market competitiveness.

### 4.4 Industrial Upgrade

In recent years, the State has clearly put forward the strategic goal of transforming to high-quality development. Against this background, Jiangsu

Province has actively responded to the call of the State and vigorously promoted industrial restructuring, striving to occupy a more favorable position in the global value chain. However, with the advancement of this process, many traditional manufacturing industries such as textile, light industry, etc., gradually exposed the domestic market saturation, overcapacity and other problems. This phenomenon of overcapacity not only leads to a large number of factors of production are occupied to make the efficiency of resource allocation decreased significantly, but also to a certain extent squeeze the development of high-tech industry space. In order to solve this dilemma, Jiangsu Province will be part of the traditional manufacturing industry to transfer to the more abundant labor factors in the country, which not only can be a reasonable allocation of factors of production to release the occupied resources, but also for the high-tech industry to make more space for the development of space. This way of optimizing the allocation of resources helps to promote the rapid development of technology-intensive industries in Jiangsu Province, which in turn enhances its competitiveness in the global industry.

## 5. CURRENT SITUATION

### 5.1 Scale of Investment

With the deepening of China's reform and opening up, the economy of Jiangsu Province has also developed rapidly, and Jiangsu Province has vigorously developed import and export trade by virtue of its strong industrial production capacity, with a rapid increase in foreign exchange reserves and an increasing scale of outward investment [19]. As can be seen from Figure 1, after the "Belt and Road" initiative was put forward in 2013, Jiangsu Province's foreign investment has increased significantly, especially from 2014 to 2016 ushered in a spurt of growth. However, in order to avoid a large number of blind outbound investments, the Jiangsu provincial government has tightened its outbound investment policy, so that investment enterprises can make more rational decisions. Although the policy has been tightened, the scale of outbound investment in 2017 and 2018 still maintained more than 9 billion U.S. dollars. After 2019, the world pattern has become complicated and volatile, especially affected by the downward pressure on the economy, Jiangsu Province's outward investment scale has declined, but it still ranks high in the country, and is located in the second place in the country in 2020 and 2021.

## 5.2 Investment Location Distribution

The following is a comparative analysis of Fig. 1 and Fig. 2. From the perspective of the regional distribution of investment, the main countries of Jiangsu Province's outward investment are Asia, Africa, Europe, North America, Oceania, and Latin America, and Jiangsu Province's outward investment in 2021 is mainly concentrated in Asia and Latin America, and in 2022 it is mainly concentrated in Asia and Europe. In terms of changes in investment

amount, investment in Asia in 2022 increased by more than 10% compared to 2021, investment in Latin America decreased by nearly 25%, investment in Europe increased by nearly 24%, investment in Africa decreased by nearly 9%, and investment in North America and Oceania remained basically flat. Under the double impact of anti-globalization and economic downward pressure, Jiangsu Province's investment in Asia and Europe has increased significantly, and the diversified market strategy is working.

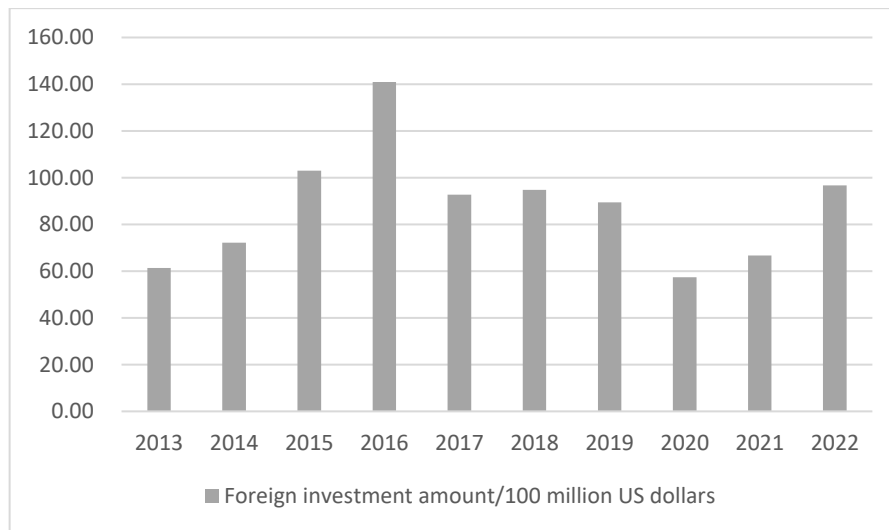


Fig. 1. Jiangsu province's outward investment amount from 2013 to 2022

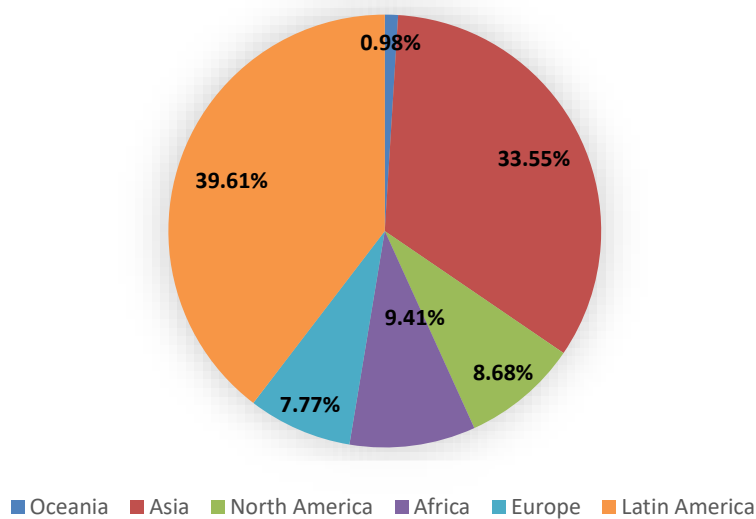
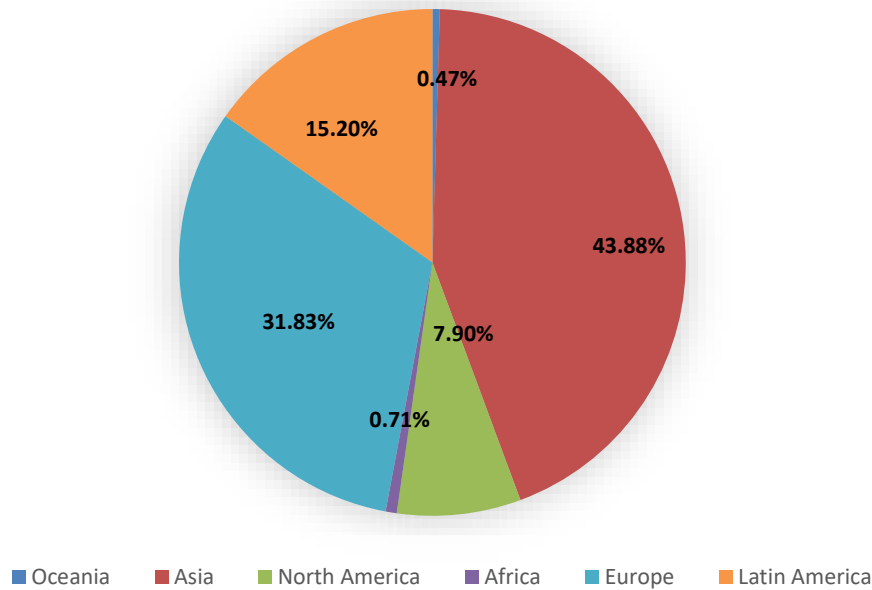


Fig. 2. Distribution of Jiangsu province's outward foreign direct investment countries in 2021



**Fig. 3. Distribution of Jiangsu province's outward foreign direct investment countries in 2022**

### 5.3 Investment Industry Distribution

The industry distribution of Jiangsu Province's outward investment is extensive and involves a wide variety of industries. As can be seen from Table 1, the outward investment of Jiangsu Province from 2013 to 2022 is mainly concentrated in manufacturing, wholesale and retail trade, and scientific research and technical services, of which the investment in manufacturing is again the most. Taking the manufacturing industry as the focus of investment can shift the excess productivity, and at the same time, it is conducive to pulling the transformation and upgrading of the manufacturing industry in Jiangsu Province, and better optimizing the industrial pattern of Jiangsu Province. In December 2016, the central economic work conference was held, clearly put forward the "homeowners do not speculate" policy, Jiangsu Province in the real estate industry, foreign investment in the obvious decline in the past two years, and even no new project approval. In the high value-added information, computer software industry and scientific research and technical services industry, there has been rapid growth after 2013, especially in the scientific research and technical services industry, reaching 130 in 2022. Investments in technology high value

-added industries are conducive to the development of high technology in Jiangsu Province, convergence with international standards, as well as access to a stable foreign customer base, and enhancement of Jiangsu Province's voice in the high-tech neighborhood.

## 6. IMPACT OF THE INITIATIVE ON INVESTMENT

### 6.1 Industrial Transfer Effect

For the manufacturing industry to realize high-quality development, its core lies in the rise of emerging manufacturing industries and the upgrading or orderly withdrawal of traditional manufacturing industries [20]. The essence of this transformation lies in the optimal allocation and reintegration of production factors to enhance the efficiency and competitiveness of the entire industrial system. However, the traditional manufacturing industry often encounters many obstacles in the process of upgrading or exiting, the most prominent of which are the specialization of large equipment and the existence of sunk costs. These factors not only increase the difficulty of enterprise transformation, but also restrict the pace of industrial structure upgrading. The "Belt and Road" initiative

provides a broad space and new opportunities for the transfer of traditional manufacturing industries. Through the construction of "One Belt, One Road", enterprises can transfer their production advantages to developing countries along the routes, make full use of rich local resources and policy concessions, thus reducing production costs, obtaining marginal benefits and effectively extending the life cycle of products. More importantly, the transfer of traditional manufacturing industries has freed up valuable resources and development space for the rise of new industries. This enables better development of high-tech industries and more optimal allocation of resources. In this process, the industrial structure is gradually optimized, and the goal of high-quality development is constantly moving forward to inject new impetus into China's sustained economic prosperity.

## 6.2 Industrial Competition Effect

Enterprises in countries or regions along the "Belt and Road" route have successfully realized the scale effect by accurately grasping and efficiently utilizing the local resource endowment, thus standing out in the market competition, gaining significant competitive advantages, and becoming the benchmarks and leaders in the industry. This positive change has not only prompted domestic enterprises to actively take a series of innovative initiatives, such as increasing product innovation, upgrading production technology and optimizing management methods, in order to maintain market share and sustain competitive advantages, but also promoted in-depth changes and upgrading of the entire industry, and realized the optimization and adjustment of industrial structure. From another perspective, in the process of integrating into the international market, OFDI enterprises actively learn and absorb advanced foreign management experience and technology, and deeply understand and apply international practices. Such cross-cultural exchanges and integration not only help to standardize domestic industry standards and provide a model for domestic enterprises to learn from and emulate, but also effectively enhance the competitive level and international influence of domestic enterprises, and promote the entire industry towards the goal of high-quality development. This positive demonstration effect and competitive pressure further stimulate the innovation vitality and development power of domestic enterprises,

and promote the continuous upgrading and optimization of industrial structure. Led by the "Belt and Road" initiative, domestic enterprises will continue to strengthen docking and cooperation with the international market, realize resource sharing and complementary advantages, and jointly promote the prosperity and development of the global economy.

## 6.3 Resource Replenishment Effect

Lack of necessary resources could seriously hamper economic development, especially in a large industrial province such as Jiangsu, where the depth and breadth of its industrial system made the resource issue a central element in constraining its sustained and sound development. Against the background of deepening global economic integration, foreign investment has become more and more prominent as an important force to alleviate domestic resource constraints and promote industrial progress. The countries along the "One Belt, One Road" have opened up new possibilities for China's manufacturing industry to solve the problem of resource shortage by virtue of their rich energy and mineral resources. Through outbound investment, enterprises can not only obtain key resources globally, but also produce high value-added products based on these resources abroad and re-sell them through the Chinese market. This model not only reduces the dependence on limited domestic resources, but also reduces production costs and enhances the market competitiveness of enterprises through the optimal allocation of resources in the international market. According to the industry chain theory, in the process of "going out", enterprises can not only promote the technological innovation of upstream industries, but also promote the technological progress and structural upgrading of downstream industries through the close cooperation with upstream industries and the construction of a solid supply chain system [21]. This deep integration of the upstream and downstream of the industrial chain not only enhances the competitiveness of the whole industrial chain, but also promotes the structural optimization and qualitative improvement of the downstream industry through the effect of economies of scale. Therefore, through the globalization layout, Jiangsu is able to further release its industrial potential and achieve more robust and sustainable economic growth.

**Table 1. Number of new batches of jiangsu's outward investment projects from 2013 to 2022 (unit: number)**

| <b>Year</b> | <b>manufacturing</b> | <b>construction</b> | <b>Wholesale and retail</b> | <b>Transportation and warehousing</b> | <b>Information, computers, and software</b> | <b>Real estate industry</b> | <b>Leasing and commercial services</b> | <b>Research and technical services</b> |
|-------------|----------------------|---------------------|-----------------------------|---------------------------------------|---|-----------------------------|--|--|
| 2013        | 148                  | 20                  | 212                         | 4                                     | 7   | 16                          | 105                                    | 31                                     |
| 2014        | 215                  | 24                  | 240                         | 2                                     | 25  | 30                          | 111                                    | 41                                     |
| 2015        | 222                  | 36                  | 263                         | 16                                    | 42  | 33                          | 137                                    | 41                                     |
| 2016        | 316                  | 52                  | 269                         | 9                                     | 53  | 32                          | 153                                    | 74                                     |
| 2017        | 198                  | 36                  | 189                         | 8                                     | 22  | 4                           | 64                                     | 40                                     |
| 2018        | 259                  | 36                  | 218                         | 11                                    | 48  | 2                           | 65                                     | 79                                     |
| 2019        | 316                  | 36                  | 218                         | 12                                    | 37  | 5                           | 81                                     | 70                                     |
| 2020        | 270                  | 29                  | 184                         | 7                                     | 35  | 0                           | 54                                     | 79                                     |
| 2021        | 236                  | 17                  | 196                         | 11                                    | 34  | 0                           | 80                                     | 111                                    |
| 2022        | 285                  | 17                  | 253                         | 14                                    | 53  | 0                           | 66                                     | 130                                    |



## 7. POLICY RECOMMENDATIONS

### 7.1 Broadening the Investment Universe

The year 2024 will mark the twelfth year since General Secretary Xi Jinping put forward the Belt and Road Initiative, a grandiose initiative spanning Asia and Europe and covering more than 100 countries or regions, which has become an important link connecting different civilizations and promoting economic prosperity. Against this backdrop, exchanges and cooperation between China and other countries along the route have been deepened, a mutually beneficial and win-win situation has gradually emerged, and China's influence on the global stage has been growing. However, due to the large number of countries along the Belt and Road, the complexity and variability of the situation has increased. These countries have different stages of economic development, complex investment environments, and a wide range of risks, which undoubtedly bring challenges to the investment and cooperation of Jiangsu enterprises in the region. However, at the same time, these countries also have rich resources, large populations and broad markets, which provide Jiangsu enterprises with great opportunities for development. Jiangsu enterprises can make full use of the different factors of the countries along the route to carry out diversified investment cooperation with them. Through in-depth understanding of the resource endowment, market demand and policy environment of each country, enterprises can formulate precise investment strategies to achieve optimal allocation of resources and effective market expansion. In addition, Jiangsu enterprises can also take advantage of the technological advantages and industrial characteristics of the countries along the route to promote the rational allocation of factors of production and enhance the core competitiveness of enterprises through complementary advantages. In the field of service trade, Jiangsu enterprises also have huge development space. By strengthening service trade cooperation with countries along the border, enterprises can promote the upgrading and transformation of service trade in Jiangsu Province. Utilizing the market potential and talent advantages of the countries along the route, Jiangsu enterprises can carry out cooperation in cross-border e-commerce, financial services, culture and tourism, etc., to further expand the international market and enhance the status of Jiangsu Province in the field of global trade in services.

### 7.2 Establishment of Risk Aversion Mechanisms

Among the countries along the "Belt and Road", Central Asia, the Middle East and Southeast Asia are generally regarded as regions with high investment risks due to the intertwining of political, economic and social factors. Enterprises may face multiple risks including but not limited to political risk, economic risk, cultural risk and other challenges when making foreign investments in these regions. Therefore, it is particularly important to establish a set of perfect investment risk assessment and avoidance mechanisms within the enterprise. Especially in the context of the global economic downturn, the complexity and uncertainty of the global situation has further intensified, which makes the risk assessment and avoidance of outward investment even more critical. Before launching outbound investment activities, enterprises should first conduct a comprehensive risk assessment of the country, including but not limited to political stability, economic conditions, laws and regulations, social culture and other aspects. On the basis of risk assessment, enterprises can seek opportunities for cooperation and win-win cooperation through communication and negotiation with local governments, enterprises and organizations, so as to avoid or reduce investment risks. In addition, enterprises can also utilize various financial instruments, such as insurance and futures, to hedge against possible economic losses and achieve risk suppression or transfer. In addition to the enterprise's own efforts, the government's support is also an important part of outward investment risk prevention. The government should actively utilize network information technology to build a big data platform for OFDI and an information exchange platform to improve the risk early warning ability and the ability to respond to emergencies. At the same time, the government should also strengthen risk alerts and information services for outward investment enterprises, so as to provide strong protection for their investment activities in countries along the "Belt and Road".

### 7.3 Strengthening Learning Investments

The development of enterprises cannot be separated from the dual support of talent and management, and these two elements play a crucial role in the growth trajectory of enterprises. At present, the development of internationalized talents of enterprises in Jiangsu Province has

stepped into the fast lane, showing vigorous vitality and vigor. However, in order to ensure that enterprises maintain a lasting advantage in the international market competition, it is still necessary to further build a systematic and professional talent development system to lay a solid foundation for the long-term development of enterprises. In terms of talent development, Jiangsu enterprises should focus on introducing and cultivating excellent talents with international vision and professional skills to build a high-quality, highly capable international team. At the same time, through the establishment of a perfect training mechanism, incentive mechanism and talent mobility mechanism, they should promote the rational allocation and efficient utilization of talent resources, so as to provide strong support for the innovative development and internationalization strategy of enterprises. At the management level, Jiangsu enterprises should actively learn from the advanced management experiences and models of developed countries to promote the upgrading and transformation of enterprise structure. By introducing modern management concepts and technical means, they can optimize internal processes, improve management efficiency and decision-making level, and inject new vitality into the development of enterprises. In addition, Jiangsu Province can also learn advanced technology and management experience from developed countries through learning and technology-based investment.

## 8. CONCLUSION

The capital and technology advantages of developed countries can help Jiangsu enterprises to acquire high-tech and excellent talents through technology spillover. At the same time, this kind of investment mode also helps to optimize the layout of Jiangsu's foreign investment industry and promote the upgrading of industrial structure and the transformation of economic development mode.

## COMPETING INTERESTS

Author has declared that no competing interests exist.

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