

The Research on Diversity of Financial and Insurance Ecosystem Promoting Overseas Investment Efficiency

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Abstract: Based on the research perspective of bank traceability, this paper examines the dynamic impact of the financial ecological diversity of the Belt and Road countries on the efficiency of Chinese firms' overseas investment from a dynamic perspective. The conclusion shows that the distributions of Chinese commercial banks in the countries along the routes can promote the efficiency of Chinese firms' overseas investment. The promoting effect increases with the increase of the number of distribution points, but the improvement degree of each distribution site on the efficiency level of firms' overseas investment shows a weakening trend. Further research shows that the distributions of Chinese commercial banks have significant heterogeneous effect on the overseas investment efficiency of Chinese firms. Specifically, in terms of firm development stage, the overseas distributions of Chinese commercial banks have a more significant effect on the overseas investment efficiency of newly listed firms. In terms of firm financing constraints, the distributions of Chinese commercial banks have a more significant effect on the overseas investment efficiency of firms with high leverage ratio. In terms of firm investment strategy, the advance distributions of Chinese commercial banks in the countries along the route effectively alleviate the overseas under-investment of non-sequential firms.

Keywords: Overseas Investment Efficiency; Financial and Insurance Ecology; Bank Following

1. Introduction and Literature Review

According to the "customer-following hypothesis" of Aliber (1984) [1], with the continuous expansion of the overseas investment location of multinational firms, domestic commercial banks will also follow their

footsteps and expand their geographical distributions. Commercial banks can transform from traditional international settlement and currency exchange to international financial services of larger scale and more types, and expand more comprehensive and professional international financial services. For multinational firms, commercial banks can not only provide financing credit to meet the huge capital demand of multinational firms' overseas investment, but also guide multinational firms to carry out overseas investment in more suitable host countries. At the same time, a good bank-firm relationship can restrain inefficient investment behaviors and help firms improve investment efficiency. [2-4] Further, the market size of the host country, [5] resource endowment and technical level, [6] institutional factors [7] and legal environment [8-9] will also affect the efficiency of overseas investment. In terms of China's OFDI to the Belt and Road countries, some scholars have found that the overall efficiency level and average value of China's investment in the Belt and Road countries are relatively considerable, but in terms of each country, there is still a lack of countries with high investment efficiency; [10] Some scholars have come to a very different conclusion, that is, the overall efficiency of China's investment in countries along the Belt and Road is not high, and the efficiency of China's overseas investment shows a downward trend in the six years from 2008 to 2014, and the country difference is large [11-12].

The diversified financial and insurance ecology of the Belt and Road countries poses a severe challenge to the efficiency of overseas investment of Chinese firms, and also increases the difficulty of overseas distributions of Chinese commercial banks.

Dynamic following of Chinese firms to countries along the Belt and Road and enhancing financial services in these countries are the important driving forces for Chinese commercial banks' overseas distributions in these countries, and the important guarantee for Chinese firms to improve the efficiency of overseas investment. Therefore, from the perspective of Chinese commercial banks following Chinese firms, this paper will examine the dynamic impact of the Belt and Road financial and insurance ecology on the overseas investment efficiency of Chinese firms.

2. Benchmark Test

2.1 Variable Selection

In the context of the financial ecological diversity of countries along the Belt and Road, based on the "follow the customer" hypothesis" perspective, this paper examines the impact of Chinese commercial banks' overseas distributions on the efficiency of overseas investment. The variables and models selected in this paper are as follows:

In terms of explained variables, Chinese firms reserve cash "reservoir" to avoid risks in response to uncertainties and risks in the overseas investment market environment, thus leading to under-investment. Considering that the efficiency loss of overseas investment of Chinese firms is mainly from under-investment, the overseas investment efficiency data of each year adopts the variable of overseas under-investment (INV).

In terms of core explanatory variables, in order to investigate whether Chinese commercial banks have overseas distributions and the dynamic impact of the number of overseas distributions on the relationship between the financial and insurance ecology of countries along the routes and the overseas investment efficiency of Chinese firms, three core explanatory variables are selected, which are as follows:

2.1.1 Overseas distributions of Chinese commercial banks

It is measured by two variables: First, whether Chinese commercial banks have distributions in the countries along the route (ChnB). If yes, the value is 1; otherwise, the value is 0; the second is the number of Chinese commercial banks in the countries along the route (ChnBnum).

2.1.2 The broad financial and insurance ecology Index of the countries along the Belt and Road (Eco)

The broad financial and insurance ecology is composed of financial entities and all financial environments that directly or indirectly affect financial entities. On the one hand, the Shannon-Wiener index, which measures the diversity of ecological species in ecology, is used to describe the diversification degree of financial entities in a country. On the other hand, Xiang (2023) [13] refer to the construction mode of financial ecological evaluation indicators, and conduct in-depth investigation from the dimensions of economic foundation, financial situation, government governance and legal norms. Among them, the dimensions of economic base include economic development level, industrial structure optimization, sustainable development degree and economic openness degree; the dimensions of financial condition include financial development, financial structure, financial subject, financial opening, financial stability and financial competition. The dimensions of government governance include government intervention and government efficiency; Legal norms include judicial environment and enforcement strength. At the same time, in order to highlight the dynamic nature, the lag 1 of the variable is selected to measure it.

2.1.3 Interaction terms between the overseas distributions of Chinese commercial banks and the lag period of the financial and insurance ecology of countries along the routes

Based on the two variables of the overseas distributions of Chinese commercial banks, the interaction term here also includes two: the interaction term between the distributions of Chinese commercial banks and the financial and insurance ecology (ChnB*Eco) and the interaction term between the number of Chinese commercial banks and the financial and insurance ecology (ChnBnum*Eco).

2.1.4 Control variables

It is mainly selected from two levels: country and firm. On the one hand, on the basis of referring to Chen et al. (2017) [14], this paper selects current firm-level indicators, namely firm scale (scale), and takes

logarithmic processing of total assets. Corporate cash holdings (Mon), the ratio of cash and cash equivalents to total assets, and firm-level data are from the CSMAR database. On the other hand, referring to the studies of Messaoud and Teheni (2014) and Xia et al. (2019) [15-16], variables to measure a country's investment environment are selected, which are the scoring indexes of contract signing (Con), investor protection (Pro) and cross-border trade Tax (Tax) respectively. The greater the value of the first two environmental variables, the higher the convenience of overseas investment in the country compared with other countries; the greater the value of the latter environmental variable, the greater the degree of obstacles to overseas investment in the country. The above all datas are from the World Bank's Doing Business report.

2.2 Model Specification

By constructing the following benchmark regression equation, this paper examines whether Chinese commercial banks have overseas distributions and the dynamic impact of the number of overseas distributions on the relationship between the financial and insurance ecology of countries along the route and the overseas investment efficiency of Chinese firms.

$$\text{Under_INV}_{jt} = \alpha_0 + \alpha_1 \text{NFE}_{jt-1} + \alpha_2 \text{Bank}_{jt} + \alpha_3 \text{NFE}_{jt-1} * \text{Bank}_{jt} + \sum \alpha_n \text{Control}_{jt} + \gamma_y + \gamma_c + \varepsilon_{jt} \quad (1)$$

In this equation, the explained variable is the overseas investment efficiency of firms (INV), and the core explanatory variables include the financial and insurance ecology of the host country (Eco), the distributions of Chinese commercial banks in the countries along the Belt and Road (ChnB) and the interaction term between the two (Eco*ChnB). The coefficient of the interaction term is the focus of this regression equation. If the interaction term is negative, it shows that the distributions of Chinese commercial banks in the host country have a promoting effect on the overseas investment efficiency of Chinese firms when the financial and insurance ecology of the countries along the Belt and Road is relatively unchanged; on the contrary, the interaction term is positive, indicating a inhibiting effect. Controls represents the set of control variables. Subscript i , j and t represents respectively the individual firm, the host country of investment, and the year of investment. In order to avoid the regression

results to be influenced by the country characteristics that do not change with time and the characteristics that change only with time, the paper further controls the country (γ^c) and time fixed effects (γ^t). In order to reduce the influence of extreme values, the explained variables were treated with 1% Winsorize.

2.3 Analysis of Empirical Results

The baseline regression results (e.g., Table 1. Benchmark Test) show that the explained variables in each column are the overseas investment efficiency of Chinese firms, and the core explanatory variable in odd columns (1) and (3) is whether Chinese commercial banks have established distributions in the countries along the Belt and Road. The core explanatory variable of even columns (2) and (4) is the number of Chinese commercial banks in the countries along the Belt and Road.

In column (1) to (2), we add the overseas distributions of Chinese commercial banks in the countries along the Route to the micro basic equation of the impact of the financial and insurance ecology of the countries along the route on the efficiency of China's overseas investment, and investigate the dynamic impact of the overseas distributions of Chinese commercial banks on the relationship between the financial and insurance ecology and firm investment efficiency of the countries along the route. The estimated results in column (1) show that the interaction term between whether Chinese commercial banks have distributions and the lag period of the financial and insurance ecology of the countries along the Belt and Road (Eco*ChnB) is negative, indicating that the distributions of banks sites in the countries along the belt and Road will improve the efficiency of overseas investment by Chinese firms if Chinese commercial banks have distributions in the countries along the Belt and Road and the financial and insurance ecology of the countries along the Belt and Road will be relatively unchanged. At the same time, compared with the countries along the Belt and Road without the advance distributions of Chinese commercial banks, the distributions of Chinese commercial banks in countries along the route can

promote the overseas investment efficiency of Chinese firms to increase by 0.011 units. Similarly, the estimated results in column (2) also show that the interaction term between the number of distributions of Chinese commercial banks and the lag period of financial and insurance ecology in the countries along the routes (Eco*ChnB) is negative, which further indicates that the distributions of Chinese commercial banks in the countries along the routes promote the efficiency of Chinese firms' overseas investment and the promoting effect can increase with the increase in the number of

distributions. When the number of Chinese commercial banks' distributions in countries along the routes increases by 1 unit, the efficiency of Chinese firms' overseas investment will increase by 0.009 units under the same financial ecological environment, indicating that the promoting effect on the efficiency of Chinese firms' overseas investment will continue to increase due to the increase of the number of Chinese commercial banks' distributions in the countries along the routes.

Table 1. Benchmark Test

	(1)	(2)	(3)	(4)
	Having distribution or not	Number of distributions	Having distribution or not	Number of distributions
Eco*ChnB	-0.011*		-0.011*	
	(-1.67)		(-1.82)	
Eco*ChnBnum		-0.009**		-0.010**
		(-2.03)		(-2.23)
ChnB	-0.025		-0.013	
	(-1.173)		(-0.592)	
ChnBnum		0.02		0.028
		(1.06)		(1.40)
Eco	0.007	-0.003	0.008	-0.002
	(1.22)	(-1.078)	(1.39)	(-1.053)
Scale			-0.006***	-0.007***
			(-3.635)	(-3.820)
Mon			0.004	0.006
			(0.20)	(0.27)
Con			-0.001	-0.001
			(-1.076)	(-1.201)
Pro			0.0005	0.0004
			(0.83)	(0.64)
Tax			0.0002	-0.0001
			(0.27)	(-0.131)
constant	0.031	0.026	0.222**	0.264**
	(1.19)	(1.12)	(2.11)	(2.57)
country fixed effects	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes
N	226	226	219	219
R2	0.73	0.74	0.75	0.76

Note: The t statistical value of the variable is in parentheses, *p<0.10, **p<0.05, ***p<0.01. The same below.

By comparing the coefficients in column (1) and (2), it can be seen that the promoting effect is marginal diminishing, that is, with the increase of the number of Chinese commercial banks in the countries along the route, the improvement degree of each distribution site on the efficiency

level of firms' overseas investment has a weakening trend.

Columns (3) ~ (4) are listed as the results of further increasing firm heterogeneity control variables and national macro-control variables. It is consistent with the regression

results in the columns (1) ~ (2). At the same time, among the newly added heterogeneity control variables, the regression coefficient of firm Scale is significantly negative, indicating that firm scale positively promotes its overseas investment efficiency. With the expansion of firm scale, Chinese firms' overseas investment efficiency also improves. The regression coefficient of firm cash holding variable (Mon) is positive. With the increase of the cash flow currently held by the firm, the funds used for overseas investment will be reduced, but it has no significant impact on the efficiency of firm overseas investment.

Among the new macro-control variables, the regression coefficient of contract signing (Con) is negative, but it does not pass the significance test, which means that the improvement of contract execution efficiency of firms in countries along the route has no obvious effect on the improvement of overseas investment efficiency of firms. Investor protection (Pro) and cross-border trade Tax (Tax) are positive, indicating that as investor protection and cross-border trade tax are smaller, the cross-border trade level of countries along the Belt and Road has improved, which has enhanced the investment facilitation of Chinese firms in the country and alleviated the overseas under-investment of Chinese firms.

The above empirical results show that with the increase of the number of Chinese commercial banks' distributions in the countries along the route, the phenomenon of Chinese firms' overseas under-investment has been alleviated. The above results help to understand the influence of Chinese commercial banks' overseas distributions on the dynamic relationship between financial ecological diversity and investment efficiency of Chinese firms. To be specific:

On the one hand, the good financial and insurance ecology of the countries along the Belt and Road helps Chinese firms to obtain more convenient funds and thus improve the efficiency of overseas investment when carrying out overseas investment. However, at this stage, the financial and insurance ecology of the countries along the Belt and Road is not only uneven and the overall level is not good, but also there are problems such as high transaction costs and unfamiliar laws and languages when providing financing services to Chinese firms. In contrast, the branches of Chinese commercial

banks have a unique competitive advantage in the information provision when providing financing services to domestic multinational firms. In particular, most of the developing countries along the Belt and Road are backward in economic development, unsound in economic, legal, cultural, financial and social systems. Chinese firms are faced with more prominent problems of information asymmetry and more complex uncertainties. Therefore, the overseas distributions of Chinese commercial banks play a more significant role in promoting the overseas investment efficiency of Chinese firms.

On the other hand, Chinese firms' overseas investment may also have the "threshold effect" of financing constraints. At this stage, if Chinese firms cannot successfully obtain sufficient investment funds in countries along the Belt and Road, it will lead to insufficient overseas investment and fail to improve the efficiency of overseas investment. The establishment of overseas institutions of Chinese commercial banks can better meet the financing needs of overseas investment firms along the routes, provide relatively sufficient funds for firms, ensure the orderly progress of firm investment, research and development, production and sales, and improve the efficiency of overseas investment of Chinese firms. At the same time, with the increase of overseas financial institutions of Chinese commercial banks, when Chinese firms beyond the threshold effect of financing constraints, the marginal effect of overseas financial institutions of Chinese commercial banks on the investment efficiency of Chinese firms may be reduced. This conclusion still needs to be further observed the continuous expansion of Chinese commercial banks' overseas distributions and its impact on the efficiency of Chinese firms' overseas investment.

3. Robustness Test

In order to verify the credibility of the above regression results, on the one hand, financial development is selected as the representative variables to replace the core variables. On the other hand, considering that the occurrence of the international financial crisis in 2008-2009 is directly related to the

uncertainty of the financial ecological environment of the countries along the Belt and Road, only the samples after 2009 are retained

for re-regression, and the estimated results (e.g., Table 2. Robustness Test) are shown as flow.

Table 2. Robustness Test

	Financial Development		After 2008	
	Having distribution or not	Number of distributions	Having distribution or not	Number of distributions
Eco*ChnB	-0.284**		-0.012*	
	(-2.337)		(-1.856)	
Eco*ChnBnum		-0.121**		-0.010**
		(-2.252)		(-2.259)
ChnB	0.026		-0.013	
	(1.02)		(-0.587)	
ChnBnum		0.033*		0.029
		(1.88)		(1.45)
Eco	0.252**	0.028	0.008	-0.003
	(2.30)	(0.84)	(1.42)	(-1.070)
Country/Time fixed effects	Yes	Yes	Yes	Yes
N	259	259	211	211
R2	0.72	0.72	0.75	0.75

The results in the columns (1) ~ (2) of Table 3 show that when replacing core explanatory variables with financial development, the interaction term between the distributions of Chinese commercial banks in the countries along the routes and the financial and insurance ecology of these countries (Eco*ChnB) is significantly negative, which is consistent with the estimated results of the benchmark test. It is confirmed once again that the distributions of Chinese commercial banks in the countries along the Belt and Road will significantly improve the overseas investment efficiency of Chinese firms, and the promoting effect will also increase with the increase of the number of distributions. The possible reason is that a country's financial development focuses on the proportion of financial markets and institutions in its total economy, which is the most commonly used indicator content to measure a country's financial and insurance ecology. In general, countries with larger financial development have financial sectors such as banks that play a larger role in the market economy and provide a relatively larger amount of credit. The above empirical results also prove that the distributions of Chinese commercial banks in the countries along the route significantly promote the investment efficiency of firms, and the promoting effect is enhanced with the increase of the number of distributions. The estimated results in the columns (3) ~ (4)

show that the interaction term between whether Chinese commercial banks have distributions and the financial and insurance ecology of countries along the route (Eco*ChnB), and the interaction term between the number of distributions and the financial and insurance ecology of countries along the route (Eco*ChnBnum) are both significantly negative, which is consistent with the coefficient symbol and significance of the benchmark test. It is indicated that even if the sample interval is changed, it does not affect the viability of the benchmark results.

4. Firm Heterogeneity Test

4.1 Test Based on the Heterogeneity of Firm Development Stage

In the face of the complex and diverse financial and insurance ecology of the countries along the Belt and Road, Chinese firms at different stages of development may suffer different efficiency losses. Therefore, this paper divides the whole sample into newly listed firms (listed for less than 2 years) and non-newly listed firms (listed for more than 2 years) according to the listed years of firms. The regression results (e.g., Table 3. Firm Development Stage Heterogeneity Test) show that in the sample of newly listed firms, the interaction term

between whether Chinese commercial banks have distributions and the financial and insurance ecology of countries along the route (Eco*ChnB), and the interaction term between the number of distributions and the financial and insurance ecology of countries along the route (Eco*ChnBnum) are both significantly negative. In the sample of non-newly listed firms, the coefficients of the above two interaction terms are still negative, but they fail the significance test. The reason is that the longer listing time

means that the firm has developed to a more mature stage, and the firm is in a relatively stable period with a relatively mature investment strategy. Compared with the newly listed firms, the dependence on overseas institutions of Chinese commercial banks is relatively low. The overseas distributions of Chinese commercial banks have a more significant effect on the overseas investment efficiency of newly listed firms.

Table 3. Firm Development Stage Heterogeneity Test

	Having distribution or not		Number of distributions	
	Non-newly listed firms	Newly listed firms	Non-newly listed firms	Newly listed firms
Eco*ChnB	-0.010 (-0.947)	-0.024** (-2.325)		
Eco*ChnBnum			-0.012 (-1.522)	-0.012* (-1.701)
ChnB	-0.011 (-0.372)	0.372*** (4.96)		
ChnBnum			0.02 (0.66)	0.176*** (4.82)
Eco	-0.001 (-0.144)	0.022** (2.27)	-0.011** (-2.599)	0.005 (1.11)
N	126	93	126	93

4.2 Test Based on the Heterogeneity of Firm Financing Constraints

Considering that firms with different financing constraints have different demands for the

overseas distributions of Chinese commercial banks, the sample firms are divided into high and low groups according to the median corporate leverage ratio.

Table 4. Firm Financing Constraints Heterogeneity Test

	High leverage ratio	Low leverage ratio	High leverage ratio	Low leverage ratio
	Eco*ChnB	-0.034* (-1.704)	0.01 (0.61)	
Eco*ChnBnum			-0.034* (-1.704)	-0.008 (-1.070)
ChnB	-0.43 (-1.045)	-0.02 (-0.687)		
ChnBnum			-0.432 (-1.045)	0.012 (0.49)
Eco	0.018 (0.82)	-0.005 (-0.662)	-0.015 (-1.344)	-0.001 (-0.259)
N	53	107	53	107

The estimated results (e.g., Table 4. Firm Financing Constraints Heterogeneity Test) show that in the sample of firms with high leverage ratio, the interaction term between whether Chinese commercial banks have distributions and the financial and insurance ecology of countries along the route (Eco*ChnB), and the interaction term between the number of distributions and the financial and insurance ecology of countries along the route

(Eco*ChnBnum) are both significantly negative. In the low leverage sample, the coefficients of the above two interaction terms are negative, but not significant. The reason is that firms with high leverage ratio generally face greater financing constraints, and firms with large financing constraints have a relatively strong dependence on overseas institutions of Chinese commercial banks, and can alleviate overseas

under-investment by reducing financing constraints. Therefore, the distributions of Chinese commercial banks have a more significant effect on the overseas investment efficiency of firms with high leverage ratio. In contrast, the effect of easing financing constraints and improving overseas investment efficiency for firms with low leverage ratio is not obvious.

5. Conclusions

Based on the research perspective of bank traceability, this paper examines the dynamic impact of the financial ecological diversity in the countries along the Belt and Road on the overseas investment efficiency of Chinese firms from a dynamic perspective. The main findings are as follows:

On one hand, the distributions of Chinese commercial banks in countries along the Belt and Road promote the overseas investment efficiency of Chinese firms. The promoting effect can increase with the increase of the number of distribution sites, but the improvement degree of each distribution site on the overseas investment efficiency of firms shows a weakening trend.

On the other hand, the distributions of Chinese commercial banks have significant heterogeneity on the overseas investment efficiency of Chinese firms. Specifically, in terms of firm development stage, the overseas distributions of Chinese commercial banks have a more significant effect on the overseas investment efficiency of newly listed firms. In terms of corporate financing constraints, the distributions of Chinese commercial banks have a more significant effect on the overseas investment efficiency of firms with high leverage ratio. In terms of firm investment strategy, the advance distributions of Chinese commercial banks in the countries along the route effectively alleviate the overseas under-investment of non-sequential firms.

Based on this, for firms, in the process of overseas investment in the countries along the Belt and Road, they should fully consider the financial ecological diversity of the host country. Within the range of the selectable locations, they should not only examine the profit and risk structure of the investment itself, but also consider the distributions of Chinese commercial banks in the country where the investment is located. For the government, it should actively promote Chinese commercial banks to set up

sites in the countries along the Belt and Road and help firms go global and build and improve international and regional economic cooperation relations.

Data Availability

The data used to support the findings of this study are available from the corresponding author upon request.

Disclosure

Any remaining errors in the paper are the responsibility of the authors.

Conflicts of Interest

The authors declare that they have no conflicts of interest.

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