The Interaction Between Outward Foreign Direct Investment and Exports from a National Risk Perspective — An Empirical Study Based on Countries Along The Belt and Road

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Abstract: This study systematically examines the interaction between outward foreign direct investment (OFDI) and export trade from the perspective of national risk, utilizing panel data from 33 countries along the Belt and Road (BRI) between 2014 and 2023. By constructing a three-dimensional risk assessment system encompassing political-military, economic-financial, and socio-cultural risks, and employing principal component analysis (PCA) alongside a three-stage least squares (3SLS) simultaneous equation model, the findings reveal three key insights. First, OFDI and exports exhibit a significant complementary effect in BRI countries, with exports playing a more prominent role in promoting OFDI. Second, national risk overall weakens this complementarity, and as risk levels rise, the relationship gradually shifts toward substitution. Third, the impact of risk types is heterogeneous: political-military and socio-cultural risks reinforce the substitution effect, while economic-financial risk exhibits a nonlinear influence. The study underscores the importance of integrating OFDI and export strategies in stable regions, adopting a gradual approach in high-risk areas, and leveraging lightweight models in economically volatile yet resource-rich countries to mitigate risk-induced substitution. These findings provide valuable insights for policymakers and enterprises navigating the complexities of international trade and investment under varying risk conditions.

Keywords: Export, OFDI, Country Risks, 3SLS.

1.   Introduction

The current profound transformation of the global political and economic landscape, marked by frequent geopolitical conflicts, rising debt risks, and heightened policy uncertainties, has positioned country risk as a pivotal constraint on cross-border economic and trade activities. In the first quarter of 2025, China's trade volume with countries along the Belt and Road reached 5.26 trillion yuan, accounting for a record 51% of its total foreign trade. However, host-country political instability and debt sustainability challenges continue to threaten the overseas interests of Chinese enterprises. The *2025 Action Plan for Stabilizing Foreign Investment* emphasizes optimizing the risk monitoring mechanism for outbound investment. Against this backdrop, clarifying the dynamic impact of country risk on trade and investment, while advancing risk prevention through coordinated efforts in "hard

connectivity," "soft connectivity," and "people-to-people connectivity," has become a critical imperative for ensuring high-standard opening-up.

The interaction mechanism between outward foreign direct investment (OFDI) and export trade constitutes a classic subject in international economics. Early theories diverge between substitution and complementarity: the substitution paradigm, epitomized by Dunning's OLI framework [1], highlights how host-country production advantages displace exports, whereas the Uppsala model [2] demonstrates how export-driven market knowledge facilitates subsequent investment. Empirical studies further reveal that sectoral heterogeneity [3] and institutional environment [4] significantly shape this interaction, though findings remain inconclusive. Notably, existing literature predominantly focuses on developed economies, with limited analysis of emerging markets—especially BRI countries—and largely overlooks the dynamic moderating role of country risk.

As China's flagship platform for global governance participation, the BRI has evolved from "broad brushstrokes" to "fine-grained details" over its decade-long implementation. From January to February 2025, China's non-financial direct investment in BRI countries surged by 17.6% year-on-year, while newly signed contracts for contracted projects grew by 33.7%. Intermediate goods accounted for 65.1% of trade, with exports of high-end manufacturing products like wind power equipment and rail transit systems exceeding 10% growth. Yet, the economic fragility and geopolitical risks pervasive in BRI countries underscore the urgency of constructing a synergistic "risk-trade-investment" governance framework. A granular analysis of their interplay will not only inform location-specific strategies for Chinese firms but also provide theoretical foundations for policymakers to design risk-hedging instruments.

To address these research gaps, this paper examines 33 BRI countries using a panel simultaneous equations model to empirically test the interactions among country risk, OFDI, and export trade.

2. Literature review

2.1. Theoretical foundations and assessment systems of country risk research

The study of country risk originated from the analysis of sovereign credit risk in international capital flows [5] and has since expanded into a multidimensional framework encompassing political, economic, and socio-cultural dimensions [6]. Traditional assessment systems, primarily designed from a developed-country perspective, rely on quantitative indicators constructed by institutions such as the PRS Group and the International Country Risk Guide (ICRG) [7], with a focus on "hard" metrics like government stability and monetary policy effectiveness [8]. However, these systems exhibit significant limitations in explaining outward investment behavior from emerging economies: (1) they underestimate the impact of institutional distance on firms' risk perception [9], and (2) they overlook how home-country policy interventions reshape risk preferences [10].

Chinese scholars have pioneered theoretical innovations tailored to the Belt and Road (BRI) context. Zhou Wei et al. [11] developed a three-dimensional risk assessment framework (political, economic, and socio-cultural) using principal component analysis (PCA), revealing that Central and Eastern European countries exhibit low political risk but high socio-cultural risk, while Southeast Asian nations demonstrate systemic risk clustering. Liu Haimeng et al. [12] further identified a declining trend in comprehensive risk across BRI countries from 2001 to 2016, though high-risk areas remain concentrated in West Asia and North Africa, with a paradoxical "inverse correlation between investment volume and risk level." While these studies address the static limitations of traditional risk assessments, they have yet to fully bridge dynamic risk early-warning mechanisms with corporate strategic responses [13].

2.2. Research on OFDI-export interactions

Studies on the interaction between outward foreign direct investment (OFDI) and exports revolve around two theoretical axes: substitution and complementarity. Early frameworks emphasized the mutual exclusivity of market-entry modes: Dunning's OLI paradigm posits that OFDI substitutes exports when firms possess host-country production advantages , while the product life-cycle theory [14] delineates a linear substitution path from exports to OFDI. However, micro-level empirical research reveals more nuanced mechanisms—export-derived market knowledge significantly reduces institutional barriers to subsequent OFDI, creating a dynamic "exports-FDI complementarity."

China's experience offers a unique testing ground for these theories. Macroscopically, Zhang Chunping's [15] panel-data analysis shows that OFDI strongly promotes exports to resource-abundant countries but substitutes exports to advanced economies. Firm-level evidence further indicates that trade-service OFDI enhances export probability by establishing overseas distribution networks [16]. Complementarity exhibits sectoral heterogeneity: manufacturing OFDI fosters upstream-downstream synergy through intermediate goods exports [17], whereas services OFDI may suppress home-country service exports due to localization requirements [18]. Notably, an inverted U-shaped relationship exists between OFDI intensity and exports, with an optimal investment threshold beyond which marginal returns diminish [19].

2.3. Moderating effects of country risk

Country risk exerts multidimensional moderating effects on internationalization strategies. Macroscopically, host-country political risk elevates transaction costs, suppressing both OFDI and exports [20]. Yet Chinese firms display distinctive risk tolerance: Africa-directed OFDI combines resource-seeking motives with risk appetite [21], while BRI investments exhibit an asymmetric "high-risk, high-investment" distribution [22]. This paradox stems from institutional compensatory mechanisms—strong bilateral political ties mitigate host-country risks by providing alternative institutional safeguards [23], and export credit insurance enhances firms' risk resilience [24].

Heterogeneity across risk types is particularly pronounced. Political-military risk strengthens the OFDI-export substitution effect by amplifying policy uncertainty [25], though a significantly positive interaction term suggests firms may buffer risks via localized supply chains. Economic-financial risk has dual effects: it stimulates market-seeking OFDI [26] but undermines export competitiveness through exchange-rate volatility [27]. Recent findings highlight that digital transformation significantly mitigates geopolitical risks' negative impact on OFDI [28], offering novel risk-coping insights.

3. Indicator construction and empirical model specification

3.1. Indicator construction

Building upon existing national risk assessment frameworks, this study develops a tailored risk evaluation system for countries along the Belt and Road (BRI), incorporating the unique characteristics of China's outward foreign direct investment (OFDI). Traditional assessment systems—such as the Political Risk Services (PRS) Group's International Country Risk Guide (ICRG), Business Environment Risk Intelligence (BERI)'s operational risk index, and the Economist Intelligence Unit (EIU)'s country risk ratings—primarily reflect the perspectives of developed-country investors and are insufficient for evaluating risks faced by Chinese enterprises. For instance, Ferrari and Rolfini [29] proposed a three-dimensional political risk framework (expropriation/restriction risk, capital transfer risk, and political violence risk) based on the protection needs of multinational corporations from developed economies.

Following Zhou Wei et al. , this study redefines national risk across three dimensions: (1) political-military risk, encompassing regime stability and governance capacity; (2) economic-financial risk, covering macroeconomic stability and financial system robustness; and (3) socio-cultural risk, including social stability and cultural adaptability. The selection of specific indicators adheres to a rigorous scientific process:

1.Indicator Screening: Based on data availability for BRI countries, 21 core indicators were selected (see Table 1).

2.Weight Assignment: Principal component analysis (PCA) was employed to assign weights through a standardized procedure:

Defining the positive/negative attributes of each indicator;

Standardizing the data;

Extracting principal components via PCA;

Calculating standardized weights for each component;

Determining final weights for primary and composite indicators.

This approach preserves the structural integrity of the original data while addressing the challenges of multidimensional evaluation.

The proposed framework features two key innovations:

Contextual Relevance: It addresses the specific needs of Chinese OFDI, focusing on the investment environments of developing countries.

Methodological Rigor: It ensures objectivity and comparability through statistical techniques, providing a robust quantitative foundation for empirical analysis.

Table 1: National risk indicator system

Risk Type	Indicator	Code	Direction	Data Source
Political-Military	Government Stability	cc	Negative	World Governance Indicators(WGI)
	Government Effectiveness	ge	Negative	
	Rule of Law	pv	Negative	
	Corruption Level	rl	Positive	
	Regulatory Quality	rq	Negative	
	Voice and Accountability	va	Negative	
	Internal Conflict	in_con	Positive	International Country Risk Guide(ICRG)
	External Conflict	ex_con	Positive	
	Political-Military Security	$mili\_pol$	Negative	
Economic-Financial	Public Debt/GDP	gov_debt	Positive	World Development Indicators(WDI)
	External Debt Liability Ratio	for_debt	Positive	
	Inflation Rate	$inflation$	Positive	
	Non-Performing Loan Ratio	$bank\_nop$	Positive	
	Fiscal Deficit/GDP	$deficit$	Positive	
	Income Inequality (Gini Index)	$gini$	Positive	
Socio-Cultural	Religious Conflict	$riligious$	Positive	International Country Risk Guide(ICRG)
	Ethnic Conflict	$ethnic$	Positive	
	Higher Education Enrollment Rate	edu_rate	Negative	UNESCO
	Crime Index (Homicide Rate)	$murder$	Positive	UNODC
	Unemployment Rate	$unem$	Positive	World Development Indicators(WDI)

3.2. Empirical model specification

Given data constraints and operational feasibility, this study employs a linear econometric model to examine the interaction between exports and OFDI. To address bidirectional relationships, a panel simultaneous equations model (inspired by Chu Deyin et al.) [30] is constructed as follows:

$$\begin{cases} \text{lnexport}_{it} = \alpha_0 + \alpha_1 \text{lnOFDI}_{it} + \alpha_k X_{it} + u_i + v_t + \varepsilon_{it} \\ \text{lnOFDI}_{it} = \beta_0 + \beta_1 \text{lnexport}_{it} + \beta_k Y_{it} + u_i + v_t + \mu_{it} \end{cases} \tag{1}$$

The empirical model examines the relationship between $lnexport_{it}$ and $lnOFDI_{it}$, where $lnexport_{it}$ refers to the natural logarithm of China's export volume to country i in year t, and $llnOFDI_{it}$ denotes the natural logarithm of China's outward foreign direct investment stock in country i in year t, with OFDI stock being used due to data limitations in flow measurements. The control variables include X_{it} and Y_{it}, where X_{it} represents the export equation's control variables comprising gdp_growth_{it} (host country's annual GDP growth rate), $pgdp_{it}$ (per capita GNI), $lnlogistic_{it}$ (logarithm of infrastructure quality index), $trade_{it}$ (trade openness), $rate_{it}$ (official exchange rate), $lnpop_{it}$ (logarithm of market size), $labor\_higheredu_{it}$ (proportion of highly educated labor force), $lnglobal\_air_{it}$ (logarithm of air transport volume), $lnresource\_rent_{it}$ (logarithm of natural resource rents), and $urban_{it}$ (urbanization rate); while Y_{it} includes the OFDI equation's control variables containing gdp_growth_{it}, $pgdp_{it}$, $lnlogistic_{it}$, $rate_{it}$, $lnpop_{it}$, $labor\_higheredu_{it}$, $lnresource\_rent_{it}$, $urban_{it}$, plus $high\_tech_{it}$ (technological development level) and bit_{it} (dummy variable for bilateral investment treaties). The models incorporate u_i and v_t, where u_i indicates country fixed effects and v_t represents year fixed effects, with ε_{it} and μ_{it} being the error terms.

For the extended model examining risk moderation effects, cr_{it} refers to the composite national risk score, while $lnOFDI_{it} \cdot cr_{it}$ and $lnexport_{it} \cdot cr_{it}$ represent the interaction terms between investment/export and national risk, with γ_3 and λ_3 capturing the moderating effect parameters.

$$\begin{cases} lnexport_{it} = \gamma_0 + \gamma_1 lnOFDI_{it} + \gamma_2 cr_{it} + \gamma_3 lnOFDI_{it} \cdot cr_{it} + \gamma_4 lnOFDI_{it-1} + \gamma_5 lnexport_{it-1} + \gamma_k X_{it} + u_i + v_t + \varepsilon_{it} \\ lnOFDI_{it} = \lambda_0 + \lambda_1 lnexport_{it} + \lambda_2 cr_{it} + \lambda_3 lnexport_{it} \cdot cr_{it} + \lambda_4 lnOFDI_{it-1} + \lambda_5 lnexport_{it-1} + \lambda_k Y_t + u_i + v_t + \mu_{it} \end{cases} \tag{2}$$

The analysis further decomposes cr_{it} into three dimensions: politic_ar(political-military risk), $economic$ (economic-financial risk), and $social$ (socio-cultural risk) for robustness checks.
Data sources include UN Comtrade for export figures, China's OFDI Statistical Bulletin for investment data, World Bank's WDI for macroeconomic indicators, and China's Ministry of Commerce for BIT information.

4. Results

4.1. Baseline regression results

This study employs the three-stage least squares (3SLS) method to systematically estimate the simultaneous equations model, addressing potential endogeneity issues. To enhance the robustness of findings, supplementary estimations are conducted using the two-way fixed effects (TWFE) model and two-stage least squares (2SLS) approach, where the first lag of core explanatory variables serves as instrumental variables in 2SLS estimation. The lagged variables exhibit high correlation with current-period variables while being theoretically unaffected by reverse causality or omitted variable bias in the current period, satisfying both relevance and exogeneity conditions after controlling for country and year fixed effects. The detailed regression results are presented in Table 2.

Table 2: Core regression analysis of export and outward FDI linkages

Variables	TWFE		2SLS		3SLS	
	lnexport	lnofdi	lnexport	lnofdi	lnexport	lnofdi
lnofdi	0.105*		0.148**		-0.037	
	(0.061)		(0.071)		(0.097)	
lnexport		0.513**		1.040***		3.226***
		(0.228)		(0.283)		(1.146)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Country	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-1.358	22.378			1.640	13.386
	(11.587)	(19.120)			(3.695)	(11.859)
Observations	254	254	228	228	254	254
R-squared	0.698	0.601	0.705	0.451	0.981	0.843

Notes: Robust standard errors in parentheses; * p<0.1, ** p<0.05, *** p<0.01.

Table 2 shows that export coefficients are consistently positive and statistically significant across all models, indicating that exports significantly promote outward foreign direct investment (OFDI) growth. Meanwhile, OFDI demonstrates positive effects on exports in both TWFE and 2SLS models, though with smaller coefficient magnitudes compared to export impacts, suggesting exports play a more dominant role in driving OFDI.

To examine the moderating role of national risk, we incorporate the composite risk index (cr) and its interaction terms with OFDI (ofdi_cr) and exports (export_cr) into the baseline model. The results reveal that national risk significantly suppresses both OFDI and exports while substantially altering their interaction dynamics. The inclusion of lagged terms addresses potential omitted variable bias, revealing a threshold effect: when national risk exceeds critical levels, firms systematically shift decision-making from host-country characteristics to historical internationalization experience. This leads to the transformation of the original complementary relationship into substitution, with firms preferring singular internationalization pathways to limit risk exposure. Complete results are shown in Table 3 .

Table 3: Test of country risk moderating effects

VARIABLES	lnexport	lnofdi
lnofdi	-1.130***	
	(0.275)	
lnexport		-4.058***
		(1.523)
cr	-5.450***	-19.573**
	(1.704)	(8.674)
ofdi_cr	0.818***	
	(0.227)	
export_cr		2.292**
		(1.008)
L.lnofdi	0.495***	0.615***
	(0.123)	(0.117)

Table 3: (continued)

L.lnexport	0.967***	2.405***
	(0.132)	(0.757)
Controls	Yes	Yes
Country	Yes	Yes
Year	Yes	Yes
Constant	4.718	8.619
	(6.344)	(14.947)
Observations	228	228
R-squared	0.968	0.884

Notes: Robust standard errors in parentheses; * p<0.1, ** p<0.05, *** p<0.01.

Heterogeneity analysis across risk dimensions demonstrates consistent substitution effects under political-military (politic_army), economic-financial (economic), and socio-cultural (social) risks. Political-military and socio-cultural risks significantly negatively affect both OFDI and exports (p<0.10), with positive interaction terms suggesting firms adopt risk-buffering strategies like localized supply chains or joint ventures to partially offset negative impacts. Economic-financial risk presents a "double-edged sword": while initially stimulating OFDI (for asset acquisition) and exports (for exchange rate risk hedging), beyond threshold levels it intensifies substitution effects (p<0.01), forcing firms to choose between trade or investment channels. Complete results are shown in Table 4.

Table 4: Tests of three-dimensional country risk moderating effects

VARIABLES	lnexport	lnofdi	lnexport	lnofdi	lnexport	lnofdi
lnofdi	-1.008***		-0.748***		-0.845**	
	(0.244)		(0.162)		(0.334)	
lnexport		-4.159**		-3.309***		-3.486***
		(1.752)		(0.628)		(0.857)
politic_army	-5.753***	-20.099*				
	(1.797)	(10.531)				
ofdi_ politic	0.829***					
	(0.231)					
export_politic		2.318*				
		(1.213)				
economic			19.660***	68.717***		
			(7.403)	(25.098)		
ofdi_ economy			-2.622***			
			(0.956)			
export_economy				-7.800***		
				(2.843)		
social					-24.014*	-90.071**
					(13.618)	(36.886)
ofdi_ society					3.302*	
					(1.792)	
export_society						9.681**

Table 4: (continued)

						(3.944)
L.lnexport	0.958***	2.567***	0.898***	2.399***	0.869***	2.429***
	(0.125)	(0.893)	(0.092)	(0.402)	(0.114)	(0.510)
L.lnofdi	0.445***	0.625***	0.406***	0.758***	0.475***	0.662***
	(0.109)	(0.128)	(0.082)	(0.084)	(0.170)	(0.075)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Country	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
Constant	5.072	5.961	-6.381	-20.415*	1.233	-0.564
	(6.026)	(15.703)	(4.522)	(10.423)	(5.457)	(9.705)
Observations	228	228	228	228	228	228
R-squared	0.973	0.876	0.979	0.903	0.975	0.890

Notes: Robust standard errors in parentheses; * $p<0.1$, ** $p<0.05$, *** $p<0.01$.

4.2. Robustness tests

To ensure the robustness of our findings, we conducted systematic validation from two key dimensions: model specification and variable treatment. Regarding model specification, we compared estimation results across three approaches—three-stage least squares (3SLS), two-way fixed effects (TWFE), and two-stage least squares (2SLS). While estimation efficiency varied across methods, the bidirectional positive relationship between exports and outward foreign direct investment (OFDI) remained statistically significant with consistent coefficient signs and magnitudes, confirming the robustness of our model specification.

To examine temporal robustness, we re-estimated the 3SLS model using one-period lagged core explanatory variables. This approach not only mitigates potential reverse causality but also tests the persistence of key variable relationships. The results demonstrate that the mutually reinforcing effects between exports and OFDI remain significantly positive after incorporating lagged terms, with coefficient magnitudes highly consistent with baseline estimates (see Table 5). This finding further validates the reliability of our core conclusions, indicating that the complementary export-OFDI relationship represents a persistent long-term characteristic rather than a transient phenomenon.

Table 5: Robustness test

Variables	lnexport	lnofdi
L.lnofdi	0.129***	
	(0.033)	
L.lnexport		0.816***
		(0.112)
Controls	Yes	Yes
Country	Yes	Yes
Year	Yes	Yes
Constant	0.796	7.267
	(3.988)	(6.805)
Observations	228	228
R-squared	0.983	0.961

Notes: Robust standard errors in parentheses; * $p<0.1$, ** $p<0.05$, *** $p<0.01$.

5. Conclusions and policy implications

Based on panel data analysis from 33 countries along the Belt and Road , this study systematically examines the interplay between outward foreign direct investment (OFDI) and exports through the lens of country risk. Three key findings emerge: First, OFDI and exports exhibit significant complementarity in BRI countries, demonstrating Chinese firms' ability to achieve trade-investment synergy in BRI implementation. Second, prevalent country risks not only directly reduce OFDI and export volumes but also substantially weaken this complementarity, with the relationship progressively turning substitutive as risk intensifies. Political-military and socio-cultural risks consistently mirror the aggregate risk effects. Third, economic-financial risks demonstrate complex dynamics—while initially stimulating corporate internationalization adjustments, they ultimately reinforce OFDI-export substitution.

The analysis yields three policy recommendations: firms should strategically combine OFDI and export operations in stable, culturally compatible regions like Southeast Asia through coordinated production base and supply chain development to maximize complementarity, while adopting more cautious approaches in higher-risk contexts through real-time risk monitoring systems and phased "trade-first" engagement strategies to mitigate sudden relationship shifts. In resource-rich but volatile economies, lighter-touch interventions through technology partnerships and equipment exports can help balance policy incentives against capital exposure risks, maintaining optimal trade-investment equilibrium across BRI's heterogeneous risk landscape.

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