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Looking at The "China Wisdom" of Foreign Investment From The Perspective of The Belt And Road—— Taking The Host Country's Tax Environment as An Example

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Abstract

This research based on the context of China's continuous expansion of outward foreign direct investment (OFDI) and deepening international tax cooperation, focuses on the impact mechanisms and policy practices of the tax environment in Belt and Road countries on China's OFDI. Through a systematic review of relevant literature and practical achievements, the study finds that the tax environment is one of the key factors influencing Chinese enterprises 'outbound investment decisions, with a favorable tax business environment significantly promoting OFDI development. China has achieved multiple practical outcomes through initiating the Belt and Road tax administration cooperation mechanism, including establishing long-term mechanisms, optimizing tax services, and enhancing information sharing, thereby providing enterprises with a more stable, transparent, and convenient international tax environment. Meanwhile, China's direct investment scale in Belt and Road countries continues to grow, investment sectors become increasingly diversified, and cooperation quality steadily improves. Based on research conclusions, this research proposes recommendations to strengthen academic-government collaboration, deepen international tax coordination, guide enterprises to scientifically assess host country tax environments, and coordinate domestic tax system reforms with opening-up policies. These measures aim to facilitate high-quality "going out" and "bringing in" for Chinese enterprises, contributing Chinese wisdom to jointly building the Belt and Road.

Keywords

Tax Environment; OFDI; Belt and Road

1. Introduction

In recent years, China's outward foreign direct investment (OFDI) has rapidly expanded in scale, becoming a significant force in the global economy. Meanwhile, China has made remarkable progress in international tax cooperation. China has actively participated in and promoted the establishment and improvement of multilateral tax cooperation mechanisms, such as joining the Multilateral Convention on Mutual Assistance in Tax Collection and Administration and the Base Erosion and Profit Shifting (BEPS) Action Plan. These international tax cooperation efforts have not only enhanced China's voice in global tax governance but also provided a more equitable and transparent tax environment for Chinese enterprises investing overseas. Correspondingly, there has been a rapid growth trend in China's outward investment. According to data from the Ministry of Commerce, China's outward direct investment was merely $68.8 billion in 2010, while this figure had grown to $153.7 billion by 2020, with an average annual growth rate of 8.4%. This growth not only reflects the enhancement of China's economic strength but also demonstrates the continuously growing competitiveness of Chinese enterprises in the global market. Therefore, studying the factors influencing changes in China's OFDI is crucial for understanding and optimizing investment strategies. Although numerous studies have explored factors such as market size and technological development levels affecting OFDI, few have conducted in-depth analysis of tax environments as a standalone influencing factor. Consequently, to better serve domestic capital through the "Going Global" policy while strengthening the Belt and Road Initiative[1]. Based on practical realities, this research focuses on analyzing the differences in tax environments among countries along the Belt and Road and their impact on China's OFDI from the perspective of these nations. It also proposes corresponding policy recommendations to provide reference for enterprises' overseas investments.

2. Analysis of The Impact Mechanism of Tax Environment on OFDI

The host country's tax environment is a critical factor influencing multinational corporations' direct investment decisions, primarily reflected in tax burden levels, tax system structure, and tax administration efficiency[2]. The overall tax burden directly affects corporate investment returns, making countries with lower tax burdens more attractive. The rationality of the tax system involves the simplicity and stability of its structure. A clear and inflexible tax system can reduce compliance costs and operational risks for businesses. Tax administration efficiency is demonstrated through the time required for tax payment, where high efficiency helps alleviate administrative burdens on enterprises.

Furthermore, the legal framework's level of rule of law, stability, and integrity are equally crucial. A high degree of legal governance ensures stronger protection for corporate rights and interests, while effective prevention of risks like illegal levies. Tax system stability reflects the continuity and predictability of tax policies, which benefits long-term investment planning. Tax integrity directly impacts information transparency and fairness, with countries demonstrating higher integrity significantly reducing enterprises' hidden costs. These factors collectively form key dimensions for evaluating a host country's tax environment, substantially influencing the location selection of foreign direct investments[3].

3. "China Wisdom" and Schievements

Research shows that in April 2019, the State Taxation Administration of China first proposed the "Belt and Road" tax administration cooperation mechanism, aiming to enhance coordination and mutual benefits in the tax field among countries and regions participating in the Belt and Road Initiative, and jointly build a growth-friendly tax environment[4]. After more than five years of development, the "Belt and Road" tax administration cooperation mechanism has become more robust and influential, with 37 council members and 30 observers, establishing itself as a multilateral tax cooperation platform with significant international influence in the tax field under the Belt and Road Initiative. During this process, China has achieved numerous cooperative outcomes, such as:

3.1. Establishing A Long-Term Mechanism For Tax Cooperation

China has actively established cooperative relationships with tax authorities of countries along the Belt and Road through signing memorandums of understanding and hosting tax cooperation conferences, thereby enhancing communication and collaboration in the field of taxation. The five editions of the Belt and Road Tax Administration Cooperation Forum have been successfully held, yielding a total of 29 key outcomes including the Joint Statement of the Fifth Belt and Road Tax Administration Cooperation Forum and the Hong Kong Action Plan (2025-2027), which have effectively promoted the establishment of a growth-friendly international tax environment. The construction of this long-term mechanism helps eliminate double taxation, improve the consistency and certainty of tax policies, and provide a stable tax environment for enterprises' investments in countries along the Belt and Road[5].

3.2. Optimizing Tax Services and The Business Environment

China and countries along the Belt and Road are committed to optimizing tax services, simplifying tax procedures, and reducing corporate tax burdens. They have launched the "Tax Road Connect" cross-border tax service brand, providing taxpayers with more professional, standardized, and internationalized tax services, including policy promotion, interdepartmental collaborative services, and targeted delivery of country (region) investment tax guides and tax benefit statements[6]. Meanwhile, both sides are also enhancing tax administration capabilities to improve the efficiency and quality of tax authorities' work, thereby creating a fairer and more transparent tax business environment for enterprises.

3.3. Strengthen Information Sharing and Cooperative Research

China has strengthened the construction of information-sharing platforms between tax authorities of China and countries along the Belt and Road, as well as collaborative research and exchanges on tax policies. Six "Belt and Road" Tax Colleges have been established, located in China (Yangzhou, Beijing, Macao), Kazakhstan (Astana), Saudi Arabia (Riyadh), and Algeria (Algiers), further improving the multilingual transnational tax business training network[7]. This not only helps countries better understand each other's changes and needs in tax policies but also lays a solid foundation for deeper future cooperation.

In contrast, China's outbound direct investment under the Belt and Road initiative has increased actively.According to statistics from China's Ministry of Commerce, the scale of China's outward direct investment under the Belt and Road Initiative has continued to grow in recent years. Meanwhile, the investment sectors have gradually diversified, extending beyond traditional infrastructure construction to manufacturing, construction, wholesale and retail, power, aerospace, energy, trade and investment, ecological conservation, finance, education, science and technology, health, culture, tourism, sports, and other fields[8]. Furthermore, Chinese enterprises' investments in "Belt and Road" countries now place greater emphasis on quality and efficiency. Through establishing overseas economic cooperation zones and undertaking engineering projects, they create local employment opportunities and promote socioeconomic development. These changes not only facilitate economic cooperation and win-win development between China and "Belt and Road" countries but also inject new momentum into global economic growth and regional collaboration.

In addition to actively cooperating with countries along the Belt and Road, China has also participated in the digital transformation of tax administration promoted by the Organisation for Economic Co-operation and Development (OECD), including the implementation of the Tax Administration 3.0 Action Plan and preparations for supporting tax administration measures under the "Dual Pillar" framework. By participating in international forums such as the International Forum on Tax Administration and the BRICS Tax Ministers' Meeting, China has provided a "BRICS model" and contributed "BRICS wisdom" to deepen global tax governance. These initiatives not only help Chinese enterprises maintain a reliable tax business environment overseas but also contribute Chinese wisdom and solutions to global tax governance.

4. Conclusions and Implications

4.1. Conclusions

Based on the research results of existing literature, this research finally draws the following conclusions:

First, based on existing literature research findings, it can be observed that current domestic and international academic studies focus less on the host country's business environment when examining the main factors influencing China's outward foreign direct investment (OFDI), while literature on tax environments remains scarce. Most studies acknowledge the positive role of low tax burdens, incentive-based tax policies, and bilateral tax agreements in host countries, yet comprehensive analyses of how tax environments impact OFDI remain insufficient. In recent years, with the continuous expansion of China's transnational capital, research solely focusing on factor resource endowments and institutional aspects to examine their effects on China's OFDI has become inadequate. Consequently, greater attention should be paid to the tax environment in this context.

4.2. Implications

According to the results of the study, this research has the following implications:

First, academia can provide more policy recommendations to the government and conduct in-depth research on the tax environment. In recent years, China's outward direct investment has grown increasingly large and is highly favored in international markets. Therefore, when selecting investment locations, one should not only focus on common macroeconomic factors and institutional environment impacts but also incorporate considerations of the tax environment. The government and academia should strengthen cooperation by jointly releasing tax environment reports, establishing foreign tax service platforms, integrating policy and preferential information, providing enterprises with real-time and accurate cross-border tax consultations, and reducing tax risks in overseas investments.

Second, it is essential to strengthen international bilateral and multilateral regional tax cooperation mechanisms, with particular emphasis on tax collaboration with relevant countries along the Belt and Road. In recent years, the rise of international unilateralism and the intensifying trend of "anti-globalization" have also impacted the flow of transnational capital and increased risks for enterprises when making foreign direct investments. As a regional cooperation platform, the Belt and Road plays a crucial role in China's development of regional economies and its further expansion into the global arena. By establishing the Belt and Road tax administration cooperation mechanism and promoting the construction of a new international tax cooperation framework, it will help ensure the effectiveness of China's OFDI benefits in Belt and Road countries and other regions.

Third, from a corporate perspective, enterprises should prioritize the host country's tax environment to mitigate risks in overseas investments. When formulating foreign direct investment strategies, companies must closely monitor critical tax-related factors including the stability of current tax systems and the integrity of tax administration. These considerations should be systematically integrated into investment decision-making frameworks, with particular emphasis on tax system reliability, legal compliance standards, and fiscal transparency. By combining these elements with traditional market dynamics, technological capabilities, and workforce resources, businesses can make scientifically informed decisions about optimal investment destinations.

Fourth, in terms of the development approach of China's external tax cooperation system, it is essential not only to pay special attention to the tax environments of countries along the Belt and Road and other host nations, but also to strengthen domestic tax environment construction. Since the establishment of New China, China's external tax-related affairs have grown from scratch and continued to strengthen. Since 2019, the tax administration cooperation mechanism jointly established by China and countries along the Belt and Road has not only further consolidated and enhanced trade and investment facilitation among member states, but also significantly expanded the "door" of China's opening-up. While actively participating in international tax cooperation, continuous optimization of the domestic tax environment should be pursued through measures such as tax reduction and fee reduction, improved tax administration efficiency, and legal safeguards for taxation, thereby improving the local business environment and achieving coordinated development between "going global" and "bringing in".

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