An Analysis of the Influence of Bilateral Tax Treaties on China's Outward Foreign Direct Investment

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Abstract: In order to study the influence of bilateral tax treaties on China's foreign direct investment, this paper selects the stock data of China's direct investment in 130 countries (regions) from 2007 to 2020 as a sample for regression analysis. The results show that signing bilateral tax treaties can promote China's foreign direct investment, and the promotion effect is significantly different in countries (regions) with different levels of development and tax burden: signing bilateral tax treaties with developing countries (regions) and countries (regions) with high tax burden has a better promotion effect on foreign direct investment than developed countries (regions) and countries (regions) with low tax burden. Based on this conclusion, this paper puts forward some policy suggestions, such as expanding the scope of signing bilateral tax treaties, striving for differentiated tax preferences, adjusting the terms of bilateral tax treaties in a timely manner and strengthening the utilization of bilateral tax treaties.

Keywords: Bilateral Tax Treaties ; Outward Foreign Direct Investment ; "Going out"

1 Introduction

As the process of globalization continues to accelerate, countries actively participate in world economic activities, and enterprises further expand their markets and gradually become internationalized. Foreign direct investment has become an important means for enterprises to participate in the world economy.Since the "Going Out" strategy was proposed, more and more Chinese enterprises have actively participated in international competition and cooperation through foreign direct investment and other forms, and the scale of foreign direct investment has expanded rapidly. According to the "2021 China Overseas Direct Investment Statistical Bulletin" jointly issued by the Ministry of Commerce, the National Bureau of Statistics and the State Administration of Foreign Exchange, as of the end of 2021, China's foreign direct investment stock was US$2.79 trillion.

While multinational enterprises are developing rapidly in the world economic market, they will inevitably encounter various setbacks, especially tax issues in foreign direct investment. In order to reduce the tax burden of multinational enterprises and protect the legitimate rights and interests of domestic enterprises in investment locations, countries actively participate in global tax governance and have signed bilateral tax treaties (BTTs) with a large number of countries. As of the end of 2022, China has officially signed bilateral tax agreements with 109 countries (regions) around the world. However,bilateral tax treaties contain general and specific provisions on anti-tax avoidance. The purpose is to prevent multinational enterprises

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from taking advantage of the differences in tax laws of different countries to engage in international tax avoidance,which weakened the ability of enterprises to directly investment enthusiasm.

Therefore, the research results on whether the impact of bilateral tax treaties on foreign direct investment are positive promotion or negative suppression have not been unified.Some scholars believe that there is no significant relationship between bilateral tax treaties and foreign direct investment, or that they have a suppressive effect.Deng Liping, Ma Jun and Wang Zhixuan (2019) used micro-data of China's A-share and "New OTC Market" companies' outward direct investment from 2005 to 2016 to conduct an empirical analysis and believed that without considering the differences in the host country, whether to sign a tax agreement and whether to sign an agreement whether tax sparing clauses are included has no significant impact on the location choice of corporate investment.[1] Blonigen and Davies (2004) used data from OECD countries and empirical results showed that anti-tax avoidance measures in tax treaties, such as tax information exchange clauses, make it difficult for multinational companies to take advantage of tax differences between countries to reduce tax burdens, thereby reducing the willingness of multinational companies to invest. Based on the direct investment data of OECD member countries from 1985 to 2000.[2]Egger (2006) used the difference-in-differences method to study and found that bilateral tax treaties have a continuous inhibitory effect on direct investment. Some scholars believe that bilateral tax treaties have a positive role in promoting foreign direct investment.[3] Du Shuang and Sun Jing (2014) studied the impact of tax treaty provisions on foreign direct investment and believed that extending the definition time of permanent establishments and reducing withholding income tax rates can promote Chinese enterprises' foreign direct investment.[4] Yin Shuping and Yin Chao (2018) analyzed the current status of the tax sparing system in my country's bilateral tax treaties and believed that the tax sparing clauses in bilateral tax treaties have played a huge role in helping enterprises "go global".[5] Davies (2009) used micro-data of Swedish enterprises to conduct an empirical study and found that signing bilateral tax treaties can indeed promote enterprises' foreign direct investment activities.[6]Based on the institutional basis, Yu Pei and Chen Yilan (2023) used the foreign direct investment data of Chinese A-share companies from 2008 to 2019 to establish an empirical model to analyze the role of BTTs on the survival status of foreign-invested companies. The study showed that passive investment in bilateral tax treaties The income withholding tax provisions can significantly improve the viability of cross-border investment enterprises, thereby increasing China's overall overseas investment volume.[7]

In summary, the impact of bilateral tax treaties and foreign direct investment has not yet been determined. Research on the impact of bilateral tax treaties on China's foreign direct investment based on my country's current situation is mainly a normative analysis at the theoretical level. Most of the empirical analyzes use China's investment data in some countries and micro data on China's overseas investment in listed companies. However, China's overseas direct investment has a wide range and has signed bilateral tax treaties with 109 countries and regions. Listed companies are not the only companies that invest overseas. Therefore, based on the national level, it is more meaningful to use macro data on foreign direct investment to study the effects of bilateral tax treaties.

2 Research Hypothesis

According to the current status of the impact of bilateral taxation agreement on external direct investment and the actual characteristics of the signing bilateral tax agreement with countries and countries, the following research assumptions are proposed:Bilateral taxation agreement has a promotion of direct investment in my country. Based on the above analysis, the following regression model is constructed,see equation (1) . Among them,: i represents the country, t represents the year, and the BTT is the core explanation variable indicating whether the two countries have signed a bilateral tax agreement. 1, vice versa.[8]

$$\ln OFDI_{i,t} = \beta_0 + \beta_1 BTT_{i,t} + \beta_2 \ln GDP_{i,t} + \beta_3 \ln LC_{i,t} + \beta_4 \ln IO_{i,t} + \beta_5 \ln TR_{i,t} + \beta_6 \ln LT_{i,t} + \beta_7 \ln RC_{i,t} + \gamma_{i,t} + \mu_{i,t} + \varepsilon_{i,t} \quad (1)$$

Based on the above content and research assumptions, this article selects 130 countries as the research objects, and uses the stock data of Chinese enterprises' foreign direct investment in these countries from 2007 to 2020 as empirical samples. There is a serious lack of data on direct investment in some countries in my country. Therefore, in order to ensure the accuracy and completeness of the data, 130 countries are selected as research objects. In some countries, the annual direct investment flow data of my country in various countries fluctuates greatly, so the stock data of foreign investment are selected. As the explained variable OFDI, the data is stable and can reflect long-term trends; the Ministry of Commerce has published the "Statistical Bulletin of China's Overseas Direct Investment" since 2003, but the data from 2003 to 2006 are non-financial overseas direct investment data, so we selected The time interval starts in 2007, taking into account the availability of variable data, and ends in 2020.

The core explanatory variable is whether a bilateral tax agreement has been signed, which is represented by the dummy variable BTT.[9] The data source is information compiled from the official website of the State Administration of Taxation. The control variables are host country market size, host country labor costs, investment opportunities, trade openness, total labor force and natural resource rents.The host country's market size variable(GDP)is measured using each country's GDP data. Host country labor costs variable(LC)is measured using each country's annual per capita GDP data. The investment opportunity variable(IO) is represented by data on the ratio of capital formation to GDP in each country.[10]Trade openness variable(TR) is measured by the ratio of total exports to GDP.[9]The total labor force variable(LT) refers to all groups in each country who are over 15 years old and meet the International Labor Organization's definition of the economically active population, that is, all people who provide labor for the production of goods and services at a specific stage. Includes both employed and unemployed people. [11]Natural resource rent variable(RC) is measured by the ratio of total natural rent to GDP. [12]The data sources of the above control variables are all from the World Bank WDI database.

3 Regression Results and Analysis

Table 1 reports the overall regression results. In table 1， *, **, and *** indicate significant at the level of 10%, 5%, and 1%, respectively, and the values in parentheses are the t-values of each statistic.According to the regression results in columns (1) , the coefficient of the core explanatory variable BTT is significantly positive at the 1% level, indicating that signing bilateral tax treaties can significantly promote China's foreign direct investment. Hypothesis is true.

Table 1. Regression Results

lnOFDI	（1）	（2）	（3）	（4）	（5）
BTT	0.309*** (2.69)	-1.20* （-1.67）	0.672*** (7.03)	0.734*** (3.06)	0.239* (1.84)
lnGDP	0.616*** (5.80)	-4.32*** (-4.44)	0.485*** (5.63)	1.420** (2.26)	0.558*** (4.96)
lnLC	-0.423*** (-3.89)	6.72*** (6.85)	-0.451*** (-4.94)	-1.29** (-2.16)	-0.340*** (-2.90)
lnIO	0.521*** (3.81)	-0.940** (-1.87)	0.654*** (5.71)	0.453 (1.50)	0.447*** (2.91)
lnTR	0.708*** (9.07)	1.521*** (7.23)	0.349*** (4.62)	0.746*** (4.35)	0.727*** (8.45)
lnLT	0.254** (2.42)	5.612*** (5.56)	0.236*** (2.79)	-0.605 (-1.08)	0.337*** (2.99)
lnRC	-0.161 (-0.76)	-0.156*** (-3.14)	0.227*** (9.83)	-0.212 (-0.33)	-0.018 (-0.78)
_cons	-9.793*** (-12.52)	-33.599*** (-10.75)	-5.865*** (-8.20)	-9.061*** (-4.74)	-10.179*** (-11.56)
N	1689	422	1267	180	1509
R-squared	0.599	0.522	0.389	0.403	0.567
F	169.08	65.44	204.44	59.04	139.84
P	0.0000	0.0000	0.0000	0.0000	0.0000

In order to test whether the impact of the signing of bilateral tax treaties on foreign direct investment will change depending on whether the host country is a developed country or a developing country, based on the above regression, the full sample of 130 countries was divided into developed countries (regions) and developing countries. Two subsamples of Chinese countries (regions) are regressed separately, including a total of 32 developed countries (regions), and the rest are developing countries (regions). The regression results are shown in columns (2) and (3) of Table 1. In order to test whether different tax burden levels in the host country will have different effects on the promotion effect of bilateral tax treaties on foreign direct investment, we grouped the countries (regions) total tax rate indicator data in the World Bank database, and divided the sample countries with a total tax rate higher than 60%. (regions) are divided into high tax burden country groups, and samples with less than 60% are low tax burden countries (regions) are divided into low tax burden country groups. The results of group regression are as shown in columns (4) and (5) of Table 1.

According to columns (2) and (3), the regression results of the samples of developing countries (regions) are more significant, which is consistent with the benchmark regression results. The core explanatory variable BTT is significantly positive at the 1% level, indicating that in China and development The bilateral tax treaties signed by Chinese countries (regions) have a better effect on promoting foreign direct investment than developed countries (regions).

The coefficient and significance of the control variable natural resource rent have changed compared with the baseline regression results. At 1% Level is significant, indicating that the natural resources of the host country are also an important consideration when making direct investment in developing countries. According to columns (4) and (5), the coefficient of the high tax burden country group is significantly positive at the 1% level, which is 0.734, while the coefficient of the low tax burden country group is positive at the 10% level, which is 0.239. This shows that the regression results of the high tax burden country group are better, indicating that the promotion effect of signing bilateral tax treaties on foreign direct investment is heterogeneous among countries with different tax burdens. China has signed bilateral tax treaties with high tax burden countries (regions). Bilateral tax treaties can promote enterprises' outward direct investment more than signing with countries (regions) with low tax burdens. Bilateral tax treaties can offset the inhibitory effect of high tax burdens on investment in the host country.

4 Conclusion and Proposal

4.1 Conclusin

This study analyzes China's outward foreign direct investment data from 2007 to 2020 to examine how bilateral tax treaties impact investment. Results show that such treaties can boost Chinese FDI, with a larger effect in developing/high-tax nations than developed/low-tax countries.

4.2 Proposal

Expand the scope of bilateral tax treaty negotiations.The role of bilateral tax treaties in promoting foreign direct investment has been made clear. In order to speed up my country's "going out" pace, we should negotiate and implement signing matters as soon as possible with countries that have not signed them. At the same time, it can be integrated with the “One Belt, One Road” initiative and proactively add bilateral tax treaties to the cooperation content to protect the tax benefits of enterprises investing in countries along the route.[13]

Strive for differentiated tax benefits. At present, most bilateral tax treaties are based on the United Nations Model and the OECD Model. The terms and contents are similar. However, bilateral tax treaties have different effects in countries with different levels of development and tax burdens. Therefore, they should be based on the economic level and tax burden of the host country. [14] We will sign bilateral tax treaties with varying degrees of tax benefits at negative levels, and strive to negotiate more favorable terms and content for our foreign investment enterprises during the signing process with high tax burden countries and developing countries, so as to enjoy more tax benefits.

Timely adjust the terms of bilateral tax treaties.Most of the bilateral tax agreements signed by our country were concentrated in 2010 and before. However, the world situation is changing rapidly and the global economy has undergone earth-shaking changes.[15] Therefore, new policies are also needed to coordinate. my country's bilateral tax treaties with some countries have been re-signed after 2010, including the United Kingdom, France, Belgium, Germany, Norway, Denmark, Singapore, Finland, New Zealand, Italy, the Netherlands, Switzerland, Spain, Romania, Malta and Russia. , but there are still many countries that currently apply bilateral tax treaties that were signed before 1990, and the content of the treaties is difficult to meet the current stage of development, such as Japan, the United States, Malaysia, Thailand, etc. In these old agreements, you can still see the words "Sino-foreign joint venture enterprise income tax", "foreign enterprise income tax" and "local income tax", which are no longer in line with the content of my country's current enterprise income tax law; in some countries, the conditions for the identification of permanent establishments , the time standard is only three months, which is very unfavorable to the overseas investment interests of Chinese enterprises, such as the United States' recognition of equipment, drilling rigs or ships used by permanent establishments to explore or exploit natural resources; the passive income withholding tax rate is in these old There is also a high tax rate of 20% in the treaty, such as Thailand's withholding tax rate on dividend income. Therefore, the provisions of bilateral tax agreements should be updated and improved in a timely manner based on the current economic landscape and the status quo of foreign investment.

Strengthen the use of bilateral tax treaties. Although the signing of bilateral tax treaties is of great significance to companies going global, in practice, companies are not sensitive to international tax provisions. Some companies going global do not make full use of bilateral tax agreements to resolve tax disputes and enjoy the tax benefits they deserve. In the future, enterprises can consult professionals in this area to improve the utilization rate of the agreement, which will further enhance the promotion effect of bilateral tax treaties on foreign investment.

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