

How political incentives affect Chinese outward foreign direct investment: A UN Security Council membership perspective

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KEYWORDS

Belt and Road initiative, outward foreign direct investment, political incentives, United Nations Security Council

1 | INTRODUCTION

Founded in 1945, the United Nations (UN) is an international organisation made up of sovereign states. As one of the six principal organs in the UN, the Security Council makes tremendous contributions to maintaining peace and security among countries. As the only principal organ of the UN that has the power to conduct military actions, the Security Council has the right to investigate any circumstances that may lead to international disputes or conflicts and to propose approaches to solve these disputes. The Security Council consists of 15 members, including five permanent members and ten nonpermanent members. The five permanent members are the United States, China, the United Kingdom, France and Russia. The non-permanent members are nominated by region groups and then elected for a 2-year term with at least two-thirds votes of the General Assembly. According to Article 23 of the UN Charter, candidates earn votes according to their contribution to international peace and other UN purposes. Non-permanent members are also stipulated by geographical distribution; that is, two from Asia-Pacific, three from Africa, two from Latin America and the Caribbean, one from Eastern Europe, and two from Western Europe and other countries. Half of them are replaced each year, and a retiring member is not eligible for immediate re-election.

Permanent members and non-permanent members share the responsibility for establishing peacekeeping operations, drafting international sanctions and authorising military action through Security Council resolutions. Under Article 27 of the UN Charter, all decisions made by the Security Council require at least nine votes. Each permanent member has the power to veto any substantive resolution, while non-permanent members do not have that right.

As a result, countries compete for seats on the Security Council for the right to speak in the Security Council, which may further lead to dominance in international affairs and growth in international influence. Malone (2000) believes that the seats of the non-permanent members on the Security Council have become increasingly important in late 1990s, as the agenda of the Security Council has increased since the end of the Cold War. In addition, Chapter VII of the UN Charter provides the Security Council with the right to take coercive actions internationally, which also contributes to the Security Council's importance. Malone notes that competition between candidates is notably fierce, especially in the Western European and Others Group.

Countries compete for the seat fiercely, probably because they attempt to use this seat to seek power or expect rewards during their tenure. According to Kuziemko and Werker (2006), when a candidate is elected as a non-permanent member, it will receive 59% more US aid and 8% more UN aid. This effect increases since the election to the end of tenure and also during years in which key diplomatic events occur to the council. The UN aid results appear to be driven by the United Nations International Children's Emergency Fund (UNICEF), while the United States takes the helm of this organisation. According to Dreher, Sturm, and Vreeland (2009), who analysed panel data from 157 countries during the period of 1970–2004, non-permanent members of the Security Council can receive more project support from the World Bank, excluding the effects of economic and political factors. Dreher, Sturm, and Vreeland's (2006) study on the International Monetary Fund also finds that countries rotating onto the council enjoys more participation and less conditions in IMF programmes.

As a permanent member in the Security Council, China is also suspected of getting benefits. Even though Eldar (2008) and Voeten (2001) pointed out that China is such a country which has traditionally objected to international interventions in countries' affair, there are evidences of vote-trading for rewards (Eldar, 2008; Lockwood, 2013; Malone, 1998).¹ On the other hand, China may have also provided incentives to non-permanent members to gain their support.

From 2003 to 2015, China's outward foreign direct investment (OFDI) has increased dramatically at an average annual growth rate of 35.9%, becoming the second largest in the world. In 2015, China's OFDI has exceeded the scale of its inward FDI. Guan and Wang (2007) note that technological capability is not the main driver behind the growing Chinese OFDI. Using a gravity equation, Cheng and Ruan (2004) conclude that Chinese OFDI has a positive correlation with the total economic scales, GNP per capita, volume of bilateral trade and similarities between the economic scales of China and the host country, while it has a negative correlation with the distance between the countries. Using a sample of manufacturing firms in Zhejiang province from 2006 to 2008, Tian and Yu (2012) conclude that firms with higher productivity have greater probability and amounts of OFDI. Wang, Du, and Wang (2014) analyse 842 projects of Chinese OFDI during the period of 2002–11, arguing that the political system and the stability of the host country have no significant effects on Chinese OFDI, while the efficiency of its government, the quality of its supervision system, its control of corruption and its tax avoidance do have effects. Finally, Chen, Dollar, and Tang (2016) point out that when China invests in African countries, governance environment of host countries does not matter much while China's incentive to seek profit is stronger in politically unstable countries. None of the studies above has studied the political incentives behind Chinese OFDI from the perspective of the Security Council membership, which is the focus of this paper.

Using the investment data from the China Global Investment Tracker database from 2005 to 2015, this paper finds that when one country rotates onto the Security Council, the value of Chinese OFDI to this country would increase by 75% and the average amount of Chinese OFDI per project will increase by 68%. The country will enjoy 0.28 more Chinese OFDI projects and higher probability of investment participation. Countries from all region groups have this effect except Eastern European, probably due to small number of observations. The effect is statistically larger

¹For example, in order to get China's support or abstention to Resolution 678 on authorising the deployment of armed forces against Iraq in the First Gulf War in 1991, the United States promised to resume normal diplomatic relations with China and provide support for a World Bank loan of \$114.3 million. In the end, China did abstain. In order to get China's abstention to Resolution 940, the US guaranteed concessions related to Taiwan and abstention in the vote on World Bank loans to China. In order to gain China's vote for Iran sanction (Resolution 1929), the US guaranteed oil supplies to China. China did vote for this resolution in 2010.

on Western European, and Latin American and Caribbean Group than the Asia–Pacific Group and the African Group. Investment in energy, finance, real estate, tourism, transport sectors would increase, while investment in agriculture, metal and technology would decrease significantly when countries are serving in the council.

A few hypotheses could account for such a relation, which are listed as below.

Hypothesis 1. *There is an omitted variable that can help countries rotate onto the UN Security Council and attract Chinese OFDI at the same time.*

Hypothesis 2. *One country deregulates its foreign direct investment, in order to get more votes in the General Assembly for being elected as a nonpermanent member.*

Hypothesis 3. *China wants to invest more in the rotating countries with OFDI, in exchange for their votes for resolutions on the Security Council.*

Vote-buying theory may not be necessary if non-permanent members do not have much leverage in affecting the voting results. O'Neill (1996) applies the Shapley–Shubik index to show the voting power of each nonpermanent member is less than 0.2%, while the power of each permanent member is about 19.6%. This is not surprising given that the five permanent members including China have veto power while the ten non-permanent members do not. Besides, even if vote-buying happens in the UN, Pang and Wang (2017) find China weakens the US ability to control votes with aid in the General Assembly. Therefore, we come up with Hypothesis 4.

Hypothesis 4. *China would like to build up friendly relations with each country via investment, while the countries with considerable prestige and great power become China's first choice.*

In this paper, we will examine the four hypotheses in detail. First, we test Hypothesis 1 by interacting non-permanent status with a variable measuring how important the Security Council is in each year. If the estimated coefficient of interaction is statistically indistinguishable from zero, then we cannot reject this hypothesis. But we find that the estimated coefficient to be significantly positive, which means when major events related to Security Council occur, non-permanent members will receive more Chinese OFDI. It verifies that the effect on investment is coming from the rotating status, not an omitted variable. Therefore, Hypothesis 1 is rejected.

Second, we test Hypothesis 2 by examining the timing of Security Council membership effect. If the investment increases before service, then we cannot reject this hypothesis. We find that the positive effect of rotating membership is stronger in the first year than the second year, while the effect in the year before countries service on the council is negative. It means countries were elected before they have received investment, so Hypothesis 2 is also rejected.

We continue to check the UN voting records to find evidence of vote-buying. We sum up all the cases that non-permanent members vote in accordance with China during the period of our sample. We analyse the investment these countries receive over the years to track the coincidence. The evidence for vote-buying is weak but we still cannot reject Hypothesis 3.

Finally, we rely on the Belt and Road initiative to differentiate countries that have already had close relations with China. By interacting this classification with nonpermanent status, we find that the rotating countries which have not cooperated much with China will get more Chinese OFDI. This result lends some support to Hypothesis 4 that China would like to cooperate with powerful

countries by starting new investment projects, especially the countries which do not already have close ties with China.

This is the first paper to study the effect of the UN non-permanent membership on Chinese OFDI. We organise the rest of the paper as follows. In Section 2, we describe the data in detail and specify the estimation equations. In Section 3, we report the empirical results of the impact of Security Council membership on Chinese OFDI. Section 4 verifies our explanations. Section 5 presents our conclusions.

2 | DATA AND METHODS

2.1 | Data

Since the exact amount of Chinese OFDI by country in each year is not available, we construct a proxy using global investment data from 2005 to 2015 in the China Global Investment Tracker database provided by the American Enterprise Institute and the Heritage Foundation. This data set includes more than 1,300 investments, with each being worth \$100 million or more. Figure 1 shows that Chinese outward investment recorded in this data set rose rapidly in 10 years, from about 10 billion US dollars in 2005 to about 110 billion in 2015.

The China Global Investment Tracker also documents to which sector each investment project belongs. There are 11 sectors in this data set, that is, agriculture, chemicals, energy, finance, metals, real estate, technology, tourism, transport, utilities and other. Figure 2 compares investments in the first and last years of our data by sector. In 2005, only five of the 11 sectors had Chinese OFDI, among which the energy sector attracted most of the investment. Ten years later, in 2015, Chinese OFDI spread in every sector and sectors including transport, energy, real estate, technology and finance were in the spotlight.

We add up the amount of companies investment in the record, count the projects, calculate the average value and sum up whether there was an investment towards each country in each sector year by year, as the proxies for the total amount, number of projects, average value and probability of Chinese OFDI by country per year in each sector.

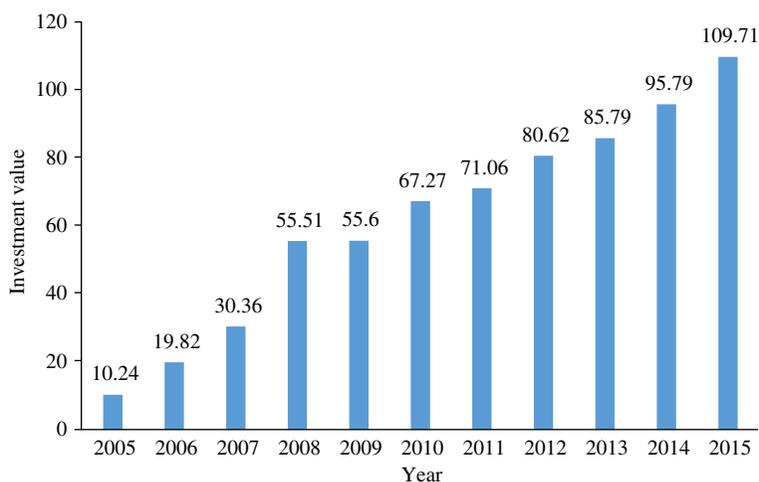


FIGURE 1 Chinese outward investment by year (\$billion).

Data Source: China Global Investment Tracker Database [Colour figure can be viewed at wileyonlinelibrary.com]

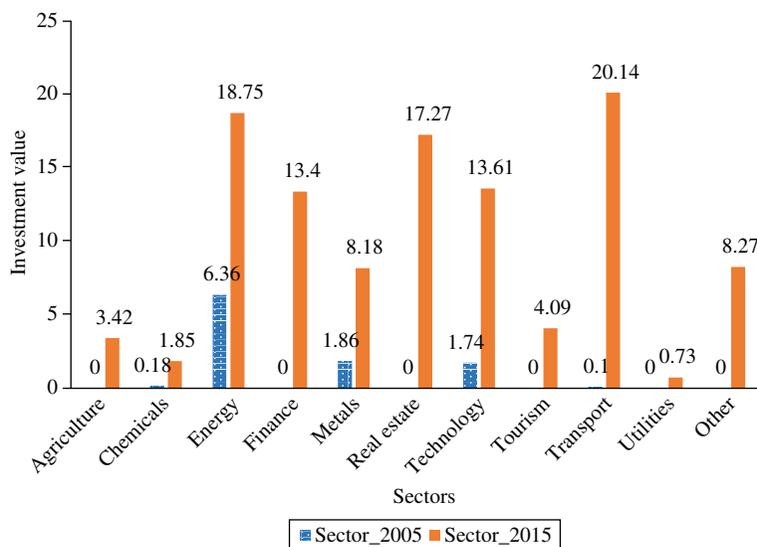


FIGURE 2 Chinese outward investment by sector in 2005 and 2015 (\$billion).

Data Source: China Global Investment Tracker Database [Colour figure can be viewed at wileyonlinelibrary.com]

Following the literature, we collect data for other variables that may affect Chinese OFDI. Consumer Price Index is used for controlling the inflation. GDP and GDP per capita describe a country's economic performance and wealth. Cheng and Ma (2010) find that both real GDP and real per capita GDP have significant positive effect on Chinese OFDI flows and stocks, while He and Zhang (2009) find GDP influences Chinese OFDI negatively, and Buckley et al. (2007) argue GDP per capita never attained significance in their regressions when using official Chinese OFDI data between 1984 and 2001. We use trade (import plus export) share of GDP to measure trade liberalisation (Cheng & Ruan, 2004). OFDI also increases where labour cost is low, while labour cost moves oppositely with labour force supply, so we collect data of population ages from 14 to 65 to represent labour supply. Jiang and Jiang (2012) find that China has preference for host countries with high natural resource endowments, so we control resource richness as well. Moreover, OFDI may be affected by the investment liberalisation of host countries, so we consider FDI net outflows share and net inflows value of each country (Buckley et al., 2007). According to Chen et al. (2015), Chinese investment decisions are influenced by political stability, so we obtain information on which country is in conflict each year from the Uppsala Conflict Data Program. Data on rule of law are collected from the World Govern Index, which ranges from -2.5 to 2.5 and reflects the extent to which people have confidence in and abide by the rules of society, and in particular the quality of contract enforcement.

Therefore, we construct a panel data set including a maximum of 22,627 country-sector-year observations of 187 countries and 11 sectors from 2005 to 2015. The five permanent members and the countries that are not UN member states (such as Kosovo) are excluded.

Since only values of investments above \$100 million are reported, no record means there is no investment or the value is below \$100 million. We make a strong assumption that in each sector, a missing value means the value of all possible investments does not exceed \$100 million in total. Thus, 100 is set as the left truncated value for the tobit regressions towards value and average value. A value of 0 is assigned to nonreported flows of number of projects and investment probability.

Finally, we add a membership variable to our data set, describing whether each country is a nonpermanent member in that year. Table 1 summarises the data. In Table A1 in the Appendix,

TABLE 1 Descriptive statistics of country-sector-level investment data set

Name	Description	Observation	Mean	SD
Lnvalue	Log of Chinese investment value in total	22,627	4.640	0.291
Lnavevalue	Log of Chinese investment value per project	22,627	4.636	0.261
Project	The number of Chinese investment projects	22,627	0.027	0.227
Whether	A dummy indicates whether China invests	22,627	0.021	0.142
SCMember	A dummy indicates whether the country is a Security Council nonpermanent member in that year	22,627	0.053	0.225
Lncpi	Log of Consumer Price Index (2010 = 100)	20,108	4.599	0.214
Lngdp	Log of GDP (constant 2005 US\$)	21,373	23.960	2.278
Lncapitagdp	Log of GDP per capita (constant 2005 US\$)	21,373	8.438	1.481
Trade	Imports of goods and services (% of GDP) + exports of goods and services (% of GDP)	20,031	0.929	0.483
Labour	Population ages 14–65 (% of total)	21,373	0.628	0.070
Law	Perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence	22,517	−0.102	0.978
Resource	Fuel exports (% of merchandise exports) + ores and metals exports (% of merchandise exports)	15,961	0.261	0.285
Conflict	A dummy indicates whether the country is in any conflict	22,627	0.132	0.338
Outflowshare	Foreign direct investment net outflows (% of GDP)	19,492	0.026	0.141
Lninflow	Log of total foreign direct investment net inflows (BoP, current US\$)	18,931	6.832	2.271

Data source: China Global Investment Database, The UN Security Council Website, World Economy Development Database, World Govern Index, Uppsala Conflict Data Program.

we list the years and countries that have served on the Security Council. Although there has been some anecdotal evidence linking the Security Council nonpermanent membership and Chinese OFDI, it is important to establish the actual effect and the mechanism, so we turn to more rigorous analysis in the following sections.

2.2 | Estimation equations

Following Anderson and Van Wincoop (2003) and Berger, Easterly, Nunn, and Satyanath (2013), we derive an estimation equation based on the gravity model of foreign direct investment. Here, the foreign direct investment from country c towards country i in year t is given by:

$$value_{ict} = \frac{GDP_{it}GDP_{ct}}{GDP_t^w} \left[\frac{\tau_{ict}}{P_{it}P_{ct}} \right]^{1-\sigma}$$

where $value_{ict}$ denotes the value of OFDI, GDP_{it} and GDP_{ct} are the total GDP of country i and country c in year t , and GDP_t^w is the world GDP in year t . τ_{ict} measures bilateral resistance when investment flows from country c to country i . In particular, τ_{ict} includes the political distance

between two nations. When a country rotates onto the Security Council as a non-permanent member, it should have shortened its political distance with China. P_{it} and P_{ct} measure multilateral resistance for countries i and c , which are complex nonlinear functions of the full set of bilateral resistance $\{\tau_{ict}\}$. The parameter σ is the elasticity of substitution.

Taking natural logs and rearranging gives:

$$\ln value_{ict} = \ln GDP_{it} + \ln GDP_{ct} - \ln GDP_t^w + (1 - \sigma) \ln \tau_{ict} - (1 - \sigma) [\ln P_{it} + \ln P_{ct}],$$

where:

$$\ln P_{it} + \ln P_{ct} = \sum_{h=1}^N \theta_{ht} \ln \tau_{iht} + \sum_{j=1}^N \theta_{jt} \ln \tau_{jct} - \sum_{k=1}^N \sum_{m=1}^N \theta_{kt} \theta_{mt} \ln \tau_{kmt}$$

and $\theta_{ht} = GDP_{ht} / GDP_t^w$ with the additional assumption of symmetry.

Since our primary interest is to study the effect of non-permanent membership on Chinese OFDI, the value of Chinese OFDI towards country i in year t can be denoted $value_{it}^{China}$ and expressed as:

$$value_{it}^{China} = \frac{GDP_{it} GDP_t^{China}}{GDP_t^w} \left[\frac{\tau_{it}^{China}}{P_{it} P_t^{China}} \right]^{1-\sigma}.$$

Taking natural logs and rearranging gives:

$$\ln value_{it}^{China} = \ln GDP_{it} + \ln GDP_t^{China} - \ln GDP_t^w + (1 - \sigma) \ln \tau_{it}^{China} - (1 - \sigma) [\ln P_{it} + \ln P_t^{China}]$$

To measure the impact of UN Security Council non-permanent membership, we add the membership dummy in the equation above. Terms such as $\ln GDP_t^{China}$ and $\ln GDP_t^w$ can be absorbed by year fixed effects. We also include all the control variables mentioned in Section 2.1 as additional determinants of investment flows, to differentiate the economic incentives of OFDI, such as searching for markets, resources, technology or efficiency. Since our data are country-sector level, country fixed effects and sector effects are also included to capture time-invariant country and sector characteristics. Thus, the reduced-form relationship between non-permanent membership and the value of Chinese OFDI is:

$$\ln value_{its}^{China} = \alpha + \beta SCMember_{it} + \mathbf{X}_{it} \boldsymbol{\Gamma} + \boldsymbol{\eta}_t + \boldsymbol{\mu}_i + \boldsymbol{\gamma}_s + \varepsilon_{it}$$

where i indexes countries receiving investment from China, t indexes years, s indexes sectors; \mathbf{X} is a vector of time-varying control variables for each country as described in Section 2.1, including one lag of Y to control the effect of investment last year on the investment this year; $\boldsymbol{\eta}$ is a vector of year fixed effect, $\boldsymbol{\mu}$ is a vector of country fixed effect, and $\boldsymbol{\gamma}$ is a vector of sector fixed effect.

Since the value of Chinese OFDI equals to the number of investment projects times average value per project and the investment probability, similar reduced-form equations can be applied to the lateral three measures of Chinese OFDI. All the basic estimation equations can be expressed uniformly as:

$$Y_{its} = \alpha + \beta SCMember_{it} + \mathbf{X}_{it} \boldsymbol{\Gamma} + \boldsymbol{\eta}_t + \boldsymbol{\mu}_i + \boldsymbol{\gamma}_s + \varepsilon_{its} \quad (1)$$

We regress Equation (1) with a tobit model where Y is log of investment value $\ln value$, log of average value per project $\ln average$ or the number of projects $project$, and with a logit model where Y is investment probability $whether$. Using four measures of investment and controlling other determinants, we test political incentives of OFDI by studying when a country rotates onto the Security Council, whether it will receive more Chinese OFDI or not.

In the United Nations, the 193 member states are divided into five regional groups: the Asia-Pacific Group, African Group, Eastern European Group, Western European and Others Group, and Latin American and Caribbean Group. Does the effect of Security Council Membership on investment vary across regions? Take the number of projects for an example. Figure 3 illustrates that countries serving on the UN Security Council receive more Chinese OFDI projects, and this pattern holds for all the regions except the Eastern European Group. On average, non-members receive about 0.02 new investment projects per year in each sector while temporary members of the UN Security Council get 0.07. For countries in Western European and Others Group, the pattern is pretty obvious. When countries are not serving, the average amount of Chinese OFDI projects they get in each sector is 0.07, while when they are serving on the Security Council, the number of projects initiated annually is 0.18. The basic pattern also holds in Asia-Pacific, Africa, Latin America and Caribbean. It does not hold for countries in Eastern European Group because those serving countries did not get any Chinese OFDI during our sample period.

To verify the pattern we found from the figure with more rigorous test, we construct five region dummies according to the division. They are *AsiaPacific*, *Africa*, *EasternEU*, *WEOG* and *GRULAC*. The estimation can be captured by the following equation:

$$Y_{its} = \alpha + \beta_1 SCMember_{it} * AsiaPacific + \beta_2 SCMember_{it} * Africa + \beta_3 SCMember_{it} * EasternEU + \beta_4 SCMember_{it} * WEOG + \beta_5 SCMember_{it} * GRULAC + X_{it}\Gamma + \eta_t + \mu_i + \gamma_s + \varepsilon_{its} \tag{2}$$

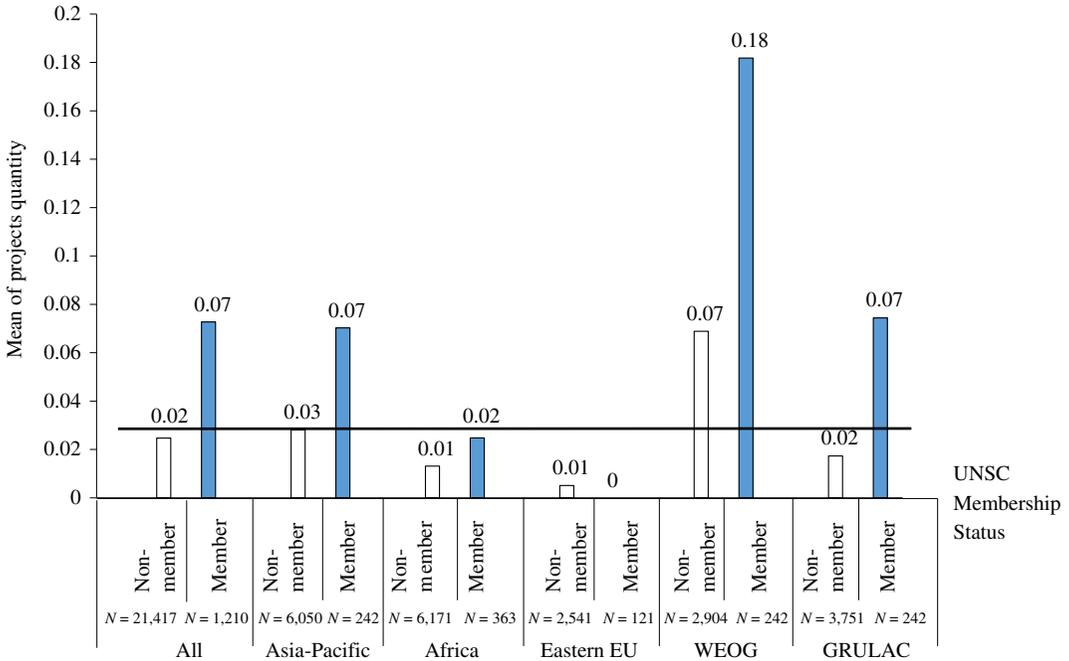


FIGURE 3 Number of new Chinese OFDI projects by the Security Council non-permanent membership across regions.

Note. The horizontal line shows the average number of new projects across the entire sample

Data Source: China Global Investment Tracker Database [Colour figure can be viewed at wileyonlinelibrary.com]

where *Asia-Pacific*, *Africa*, *EasternEU*, *WEOG* and *GRULAC* represent whether a country is in the Asia-Pacific Group, African Group, Eastern European Group, Western European and Others Group, and Latin American and Caribbean Group. If the answer is yes, the dummy equals 1, otherwise the dummy equals 0. The coefficients of the interaction terms of membership dummy *SCMember* and region dummies illustrate the different effects of political status on Chinese OFDI in different regions.

Since there are 11 sectors in our data set, we would like to test whether the pattern still holds in different sectors. We construct 11 sector dummies: *Agriculture*, *Chemicals*, *Energy*, *Finance*, *Metals*, *RealEstate*, *Technology*, *Tourism*, *Transport*, *Utilities* and *Other*. A sector dummy is coded as 1 if a project is invested in this sector and then the other 10 sector dummies equal 0. We estimate Equation (3) and the coefficients of the interaction term of membership dummy *SCMember* and sector dummies illustrate the different effects of political status on Chinese OFDI in different sectors:

$$Y_{its} = \alpha + \beta_1 SCMember_{it} * Agriculture + \beta_2 SCMember_{it} * Chemicals + \dots + \beta_9 SCMember_{it} * Utilities + \beta_{10} SCMember_{it} * Other + \mathbf{X}_{it} \Gamma + \boldsymbol{\eta}_t + \boldsymbol{\mu}_i + \gamma_s + \varepsilon_{its} \quad (3)$$

3 | REGRESSION RESULTS

Table 2 shows the estimation results for various dependent variables in Equation (1). Controlling-year fixed effects, country fixed effects, as well as sector fixed effects, the results for log of investment value, log of average investment value, number of projects and investment probability are listed in columns (1) to (4), respectively. The results indicate that in most of the cases, Security Council membership has a significant and positive effect on Chinese OFDI at 1% level. When one country rotates onto the Security Council, the value of Chinese OFDI to this country will increase by 56 log points, or 75% in each sector per year and the average value of Chinese OFDI per project will increase by 68%. Countries on the Security Council will on average receive 0.275 Chinese OFDI projects more than the countries not serving. The probability of investment participation is also significantly higher at 10% level. Note that the sample size reduces to 6,523 from 12,353, when we apply Logit model in column (4).

Interestingly, the estimated coefficients of some control variables in Table 2 are contrary to economic intuition and literature. For example, we usually believe that if there is a greater labour force in one country, employment cost is lower; therefore, there will be more investment in this country. However, Table 2 shows that the ratio of labour force has a substantial and statistically significant decrease in investment. Table 2 also shows that larger markets attract less investment, which is surprising but in accordance with He and Zhang (2009). In addition, we usually believe there may be more investment in a country with abundant resource, stable politics and better legal system (Jiang & Jiang, 2012), but the coefficients of control variables *resource*, *conflict* and *law* are contrary to our expectation. All of these results indicate that Chinese OFDI is irrational under pure economic incentives. Therefore, it is worth studying whether Chinese OFDI is influenced by political incentives.

To investigate whether the effect of Security Council membership varies by region, we test Equation (2), and the results are shown in Table 3. From these results, we find that all countries except those from Eastern Europe are significantly affected by the nonpermanent membership. For

TABLE 2 Impact of the UN Security Council non-permanent membership

Variables	(1) Lnvalue	(2) Lnavevalue	(3) Project	(4) Whether
SCMember	0.564*** (0.008)	0.522*** (0.007)	0.275*** (0.005)	0.334* (0.203)
Lncpi	-0.824*** (0.001)	-0.762*** (0.001)	-0.217*** (0.001)	-0.216 (0.974)
Lngdp	-3.296*** (0.000)	-3.145*** (0.000)	-1.723*** (0.000)	-1.618 (2.068)
Lncapitagdp	2.560*** (0.000)	2.604*** (0.000)	0.569*** (0.000)	0.611 (2.516)
Trade	0.757*** (0.003)	0.742*** (0.003)	0.283*** (0.002)	0.588 (0.786)
Labour	-20.843*** (0.006)	-20.012*** (0.006)	-10.299*** (0.003)	-10.485 (14.253)
Resource	-1.616*** (0.009)	-1.523*** (0.009)	-1.168*** (0.005)	-1.260 (0.949)
Outflowshare	0.110*** (0.036)	0.111*** (0.034)	0.589*** (0.018)	0.601 (0.812)
Lninflow	0.110*** (0.000)	0.094*** (0.000)	0.088*** (0.000)	0.039 (0.090)
Conflict	0.535*** (0.008)	0.487*** (0.007)	0.173*** (0.005)	0.233 (0.761)
Law	-0.312*** (0.005)	-0.262*** (0.004)	-0.266*** (0.003)	0.052 (0.971)
L.lnvalue	0.673*** (0.001)			
L.lnavevalue		0.630*** (0.001)		
L.project			0.689*** (0.008)	
L.whether				1.026*** (0.198)
Constant	49.380*** (0.004)	46.812*** (0.004)	25.603*** (0.002)	34.093 (32.767)
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Sector FE	Yes	Yes	Yes	Yes
Observations	12,353	12,353	12,353	6,523

Notes. Robust standard errors in parentheses.

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$.

TABLE 3 Impact of the UN Security Council non-permanent membership over regions

Variables	(1) Lnvalue	(2) Lnavevalue	(3) Project	(4) Whether
SCMember*AsiaPacific	0.192*** (0.018)	0.156*** (0.017)	-0.059*** (0.012)	0.014 (0.289)
SCMember*Africa	0.447*** (0.019)	0.429*** (0.018)	0.067*** (0.013)	-0.001 (0.296)
SCMember*EasternEU	-0.620 (0.000)	-0.593 (0.000)	-0.239 (0.000)	
SCMember*WEOG	0.575*** (0.010)	0.532*** (0.010)	0.352*** (0.007)	0.382 (0.239)
SCMember*GRULAC	1.194*** (0.025)	1.124*** (0.022)	0.812*** (0.017)	1.066* (0.565)
Lncpi	-0.939*** (0.001)	-0.872*** (0.001)	-0.289*** (0.001)	-0.355 (0.938)
Lngdp	-3.278*** (0.000)	-3.128*** (0.000)	-1.964*** (0.000)	-1.886 (2.118)
Lncapitagdp	2.556*** (0.000)	2.599*** (0.000)	0.864*** (0.000)	0.970 (2.498)
Trade	0.744*** (0.004)	0.729*** (0.004)	0.247*** (0.002)	0.552 (0.776)
Labour	-18.244*** (0.006)	-17.480*** (0.006)	-8.541*** (0.003)	-8.029 (15.051)
Resource	-1.762*** (0.009)	-1.660*** (0.009)	-1.283*** (0.005)	-1.420 (0.914)
Outflowshare	0.105*** (0.037)	0.106*** (0.035)	0.590*** (0.019)	0.584 (0.812)
Lninflow	0.103*** (0.000)	0.087*** (0.000)	0.081*** (0.000)	0.032 (0.089)
Conflict	0.498*** (0.007)	0.451*** (0.007)	0.142*** (0.005)	0.205 (0.742)
Law	-0.483*** (0.005)	-0.424*** (0.005)	-0.421*** (0.003)	-0.198 (0.819)
L.lnvalue	0.672*** (0.001)			
L.lnavevalue		0.630*** (0.001)		
L.project			0.688*** (0.008)	

(Continues)

TABLE 3 (Continued)

Variables	(1) Lnvalue	(2) Lnavevalue	(3) Project	(4) Whether
L.whether				1.030*** (0.198)
Constant	47.732*** (0.004)	45.208*** (0.004)	27.851*** (0.002)	36.852 (33.375)
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Sector FE	Yes	Yes	Yes	Yes
Observations	12,353	12,353	12,353	6,523

Notes. Robust standard errors in parentheses.

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

most of those countries, when they rotate onto the Security Council, the Chinese OFDI value and average value per project as well as the number of projects will increase significantly at 1% level. Countries from Latin America and the Caribbean will also enjoy a nearly 107% increase in investment probability. For countries from Asia and Pacific Group, even though the project quantity decreases by 0.059 on average when serving on the council, the value and average value increase by 21% and 17%, respectively. The effect of council membership on Eastern European countries is not significant because there happen to be no investment to the serving countries during our sample period. The coefficients of control variables keep the same direction as our basic regression, most of which keep wired and inconsistent with economic intuition.

Next, to investigate which sector brings such a positive effect on Chinese OFDI, we test Equation (3). The coefficients of the interaction terms of membership dummy *SCMember* and sector dummies indicate the different effects of political status on Chinese OFDI in different sectors.

Table 4 shows the estimation results for various dependent variables such as log of investment value, log of average investment value, number of investment projects and investment possibility. We find that the effect of being on the council is not significant in terms of investment probability for most of the sectors except energy. Investment in the energy sector has significantly positive effects on all the four dependent variables, while finance, real estate, tourism and transport sector also enjoy an increase in Chinese OFDI in terms of value and average value. In contrast, investment in agriculture, metals and technology will decrease significantly when countries serve on the council. The effect of membership in chemistry and utilities is not significant as Table 4 shows, which may be because of not enough data variations.

4 | MECHANISM

In this section, we explore the mechanism of the positive nonpermanent membership effect by examining the four hypotheses in Section 1.

First, to examine Hypothesis 1 and verify the significant effect of Security Council membership on Chinese OFDI is caused by the membership itself, not any other omitted variables that can help one country rotate onto the council and attract Chinese OFDI at the same time, we follow Kuziemko and Werker (2006) and interact the *SCMember* variables with a measure of how

important that year happen to be to the council. World events happened during one country's term is exogenous. The estimation is described by the following equation:

$$Y_{its} = \alpha + \beta_1 SCMember_{it} * ImportantYear_t + \beta_2 SCMember_{it} + \mathbf{X}_{it}\Gamma + \boldsymbol{\eta}_t + \boldsymbol{\mu}_i + \gamma_s + \varepsilon_{its} \quad (4)$$

ImportantYear is a dummy variable coded as 1 if there are many events related to peace or security happened in that year. We search through EBSCO newspaper database and count the total number of newspaper articles in year t with the words "United Nations" and "Security Council" (or "UNSC") in the New York Times. We rank the years according to the counts and separate them into two categories, that is, 6 years that are very important and 5 years that are not so important to the council. We also check the total number of related articles in the whole EBSCO newspaper database and experiment with a new definition of important year as a robustness check. The numbers of related articles appeared in New York Times and whole EBSCO newspaper database are presented in Table A2. The result of robustness check is shown in Table A3.

If the effect on Chinese OFDI is purely driven by some omitted variable that influences countries to serve in the council, instead of the nonpermanent membership itself, then the estimate of β_1 should statistically indistinguishable from zero. Otherwise, we can verify our conclusion that nonpermanent membership has effect on Chinese OFDI indeed.

Table 5 present the results regarding Equation (4). As the same methods in Section 2, we apply tobit model to analyse the value, average value and the number of projects and apply logit model to analyse investment probability. As indicated by the significant coefficients for the interaction of SCMember and important year dummy in Table 5, the effect of Security Council non-permanent membership is pretty strong during the years in which the council's proceedings were given much of attention. The serving countries will get 147% and 141% more Chinese OFDI in terms of value and average value per project. The number of new investment projects will increase by 0.24. The observations of investment probability reduce by nearly half when using a logit model. The effect of membership on probability is not significant but keeps positive. All the results are very robust. Therefore, we can reject Hypothesis 1.

Our second extension is to investigate the timing of Security Council membership effect following Dreher et al. (2006) and Kuziemko and Werker (2006). This extension can help examine Hypothesis 2. Figure 4 depicts how Chinese OFDI varies before, during and after membership, in terms of the number of investment projects.

It seems clear that countries get more investment projects from China since serving on the council. We continue to test whether this trend still holds when we control more variables in a rigorous test specified in the following equation:

$$Y_{its} = \alpha + \beta_1 T0_{it} + \beta_2 T1_{it} + \beta_3 T2_{it} + \beta_4 T3_{it} + \mathbf{X}_{it}\Gamma + \boldsymbol{\eta}_t + \boldsymbol{\mu}_i + \gamma_s + \varepsilon_{its}, \quad (5)$$

where T0 is a dummy variable indicating the year before serving on the council, that is, the year when a country is elected to the Security Council by United Nations General Assembly; T1 and T2 indicates the first and second year of the tenure, respectively; T3 corresponds to the year immediately following the service term.

Hypothesis 2 concerns about the direction of positive relation between non-permanent membership and Chinese OFDI. To rotate onto the Security Council, candidate countries require a two-third majority of voting in the General Assembly. One may suspect that the increase of Chinese OFDI is due to the investment deregulation of host countries which allows more foreign direct investment in exchange for votes during the election for non-permanent status. If this argument holds, we expect to find a positive estimator of β_1 . However, if the estimate of β_1 is negative

TABLE 4 Impact of the UN Security Council non-permanent membership over sectors

Variables	(1) Lnvalue	(2) Lnavevalue	(3) Project	(4) Whether
SCMember*Agriculture	-0.070*** (0.017)	0.023 (0.016)	-0.152*** (0.012)	0.159 (0.619)
SCMember*Chemicals	-14.974 (0.000)	-13.778 (0.000)	-10.779 (0.000)	
SCMember*Energy	1.101*** (0.055)	1.034*** (0.051)	0.628*** (0.037)	0.892** (0.367)
SCMember*Finance	1.644*** (0.082)	1.550*** (0.076)	0.982*** (0.058)	0.788 (0.576)
SCMember*Metals	-0.040 (0.076)	0.008 (0.070)	-0.297*** (0.054)	-0.064 (0.416)
SCMember*RealEstate	0.855*** (0.080)	0.593*** (0.074)	0.768*** (0.052)	0.296 (0.391)
SCMember*Technology	-0.743*** (0.094)	-0.652*** (0.087)	-0.613*** (0.064)	-0.467 (0.745)
SCMember*Tourism	1.059*** (0.132)	1.034*** (0.122)	0.331*** (0.088)	0.630 (0.772)
SCMember*Transport	0.494*** (0.070)	0.416*** (0.065)	0.397*** (0.046)	0.300 (0.490)
SCMember*Utilities	-14.132 (0.000)	-13.028 (0.000)	-10.338 (0.000)	
SCMember*Other	0.860*** (0.092)	0.838*** (0.085)	0.326*** (0.065)	0.308 (0.541)
Lncpi	-0.814*** (0.001)	-0.753*** (0.001)	-0.210*** (0.001)	-0.228 (0.981)
Lngdp	-3.296*** (0.000)	-3.156*** (0.000)	-1.657*** (0.000)	-1.527 (2.080)
Lncapitagdp	2.494*** (0.000)	2.554*** (0.000)	0.462*** (0.000)	0.541 (2.541)
Trade	0.766*** (0.003)	0.750*** (0.003)	0.291*** (0.002)	0.600 (0.790)
Labour	-21.101*** (0.006)	-20.165*** (0.006)	-10.562*** (0.003)	-10.799 (14.289)
Resource	-1.587*** (0.009)	-1.499*** (0.009)	-1.148*** (0.005)	-1.243 (0.961)
Outflowshare	0.128*** (0.037)	0.122*** (0.035)	0.624*** (0.018)	0.613 (0.810)

(Continues)

TABLE 4 (Continued)

Variables	(1) Lnvalue	(2) Lnavevalue	(3) Project	(4) Whether
Lninflow	0.110*** (0.000)	0.094*** (0.000)	0.086*** (0.000)	0.039 (0.090)
Conflict	0.537*** (0.008)	0.488*** (0.007)	0.178*** (0.005)	0.232 (0.760)
Law	-0.286*** (0.005)	-0.239*** (0.004)	-0.247*** (0.003)	0.076 (0.987)
L.lnvalue	0.664*** (0.001)			
L.lnavevalue		0.618*** (0.001)		
L.project			0.689*** (0.008)	
L.whether				1.017*** (0.197)
Constant	50.299*** (0.004)	47.770*** (0.004)	25.238*** (0.002)	32.727 (32.828)
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Sector FE	Yes	Yes	Yes	Yes
Observations	12,353	12,353	12,353	6,413

Notes. Robust standard errors in parentheses.

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

while estimate of β_2 or β_3 is positive, the argument does not make sense, and therefore, the effect should purely come from Security Council non-permanent status.

Table 6 shows that, similar to Dreher et al. (2006), the positive effect of UN Security Council membership is the strongest during the first year of tenure. Compared to not serving on the Security Council, non-permanent members enjoy 124% increase in investment value. The number of projects, investment probability and the average value of investment also go up substantially. The effect during the second year remains positive but becomes weaker. Only two of the four indexes of Chinese OFDI increase significantly. Non-permanent members get less investment both 1 year before their term and 1 year after. Thus, the positive relation between Chinese OFDI and non-permanent membership is not caused by the possible investment deregulation policies in host countries. When countries run for votes the year before the tenure, Chinese OFDI even decreases. Therefore, we reject Hypothesis 2.

According to Hypothesis 3, China may want to obtain more votes in the Security Council in order to pass a certain motion by investing in countries that are nonpermanent members. For this hypothesis, we hope to find evidence from UN Security Council voting record. The UN Library maintains a voting records database which provides access to voting information for adopted Security Council resolutions. The database does not record draft resolutions which were not adopted, so we are not

TABLE 5 Impact of the UN Security Council non-permanent membership in important year, *New York Times*

Variables	(1) Lnvalue	(2) Lnavevalue	(3) Project	(4) Whether
SCMember*importantyear	0.905*** (0.063)	0.888*** (0.059)	0.241*** (0.045)	0.279 (0.372)
SCMember	0.024 (0.048)	-0.007 (0.045)	0.129*** (0.036)	0.167 (0.200)
Lncpi	-0.907*** (0.001)	-0.841*** (0.001)	-0.243*** (0.001)	-0.249 (0.970)
Lngdp	-3.180*** (0.000)	-3.040*** (0.000)	-1.648*** (0.000)	-1.516 (2.075)
Lncapitagdp	2.392*** (0.000)	2.449*** (0.000)	0.478*** (0.000)	0.494 (2.536)
Trade	0.756*** (0.004)	0.740*** (0.004)	0.283*** (0.002)	0.592 (0.790)
Labour	-19.728*** (0.006)	-18.914*** (0.006)	-10.023*** (0.004)	-10.013 (14.425)
Resource	-1.570*** (0.009)	-1.478*** (0.009)	-1.158*** (0.005)	-1.242 (0.941)
Outflowshare	0.085** (0.036)	0.087** (0.034)	0.578*** (0.018)	0.581 (0.824)
Lninflow	0.102*** (0.000)	0.086*** (0.000)	0.085*** (0.000)	0.037 (0.091)
Conflict	0.515*** (0.008)	0.468*** (0.008)	0.167*** (0.006)	0.222 (0.754)
Law	-0.339*** (0.005)	-0.289*** (0.004)	-0.273*** (0.003)	0.029 (0.944)
L.lnvalue	0.669*** (0.001)			
L.project		0.625*** (0.001)		
L.whether			0.688*** (0.008)	
L.lnavevalue				1.022*** (0.197)
Constant	47.726*** (0.004)	45.312*** (0.004)	24.531*** (0.003)	32.350 (32.724)
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Sector FE	Yes	Yes	Yes	Yes
Observations	12,353	12,353	12,353	6,523

Notes. Robust standard errors in parentheses.

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

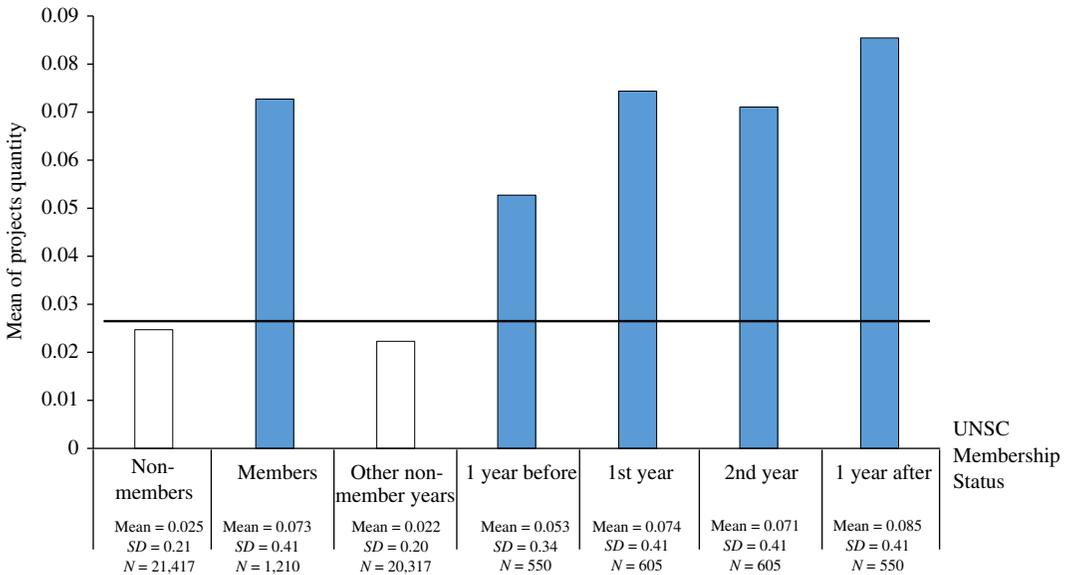


FIGURE 4 Number of new Chinese OFDI projects by the Security Council non-permanent membership over time.

Note. The horizontal line shows the average number of new projects across the entire sample.

Data Source: China Global Investment Tracker Database [Colour figure can be viewed at wileyonlinelibrary.com]

able to find which country stands in the same line with China when China vetoes as a permanent member. But it does not matter too much since it is more important for China to gain votes when it hopes to get one draft resolution passed. After all, with the right of veto, China can make draft resolutions not adopted when it wants. Therefore, if this hypothesis holds, we expect to see more Chinese OFDI in a rotating country that follows China's votes, that is, vote yes or abstain at the same time with China; or less Chinese OFDI if the country abstains when China votes yes. Since it is hard to tell whether China means to agree or not for a resolution when it abstains, we do not take such kind of situation into consideration when China abstains while a rotating country votes.

In the record, we find around 93% of the adopted resolutions were passed unanimously. There are 681 adopted resolution in total from 2005 to 2015. Among them, 3 resolutions passed without voting and 48 passed with affirmative votes less than 15. In detail, 27 resolutions were adopted with 14 affirmative votes, 9 with 13 affirmative votes, 4 with 12 affirmative votes, 2 with 11 affirmative votes and 10 affirmative votes, respectively. There is only one resolution on small arms in 2015 adopted with 9 affirmative votes, which is the minimum requirement for passing a resolution. For this resolution, China abstained with Angola, Chad, Nigeria, Venezuela and another permanent country, Russia. But none of the four rotating countries got Chinese OFDI in 2015 or during that 2-year term. China also abstained for the two resolutions which got 10 affirmative votes and two resolutions which got 11 affirmative votes.

On one hand, some countries got Chinese OFDI when they always voted in accordance with China. During its term in 2013 and 2014, Australia never voted differently from China and got 10 and 16 new projects, respectively, in each year, but the quantity or value in total was not so outstanding comparing to other years. Italy got 250 million dollars in the second year of its term in 2008. It is more or less the average value before 2013, but only 3% of the total value comparing to the investment that Italy got from China in 2014 or 2015. Luxembourg got \$220 million dollars

TABLE 6 Impact of the UN Security Council non-permanent membership over time

Variables	(1) Lnvalue	(2) Lnavevalue	(3) Project	(4) Whether
SCMember*1 year before	-0.257*** (0.019)	-0.208*** (0.017)	-0.222*** (0.014)	-0.158 (0.340)
SCMember*the 1st year	0.806*** (0.019)	0.750*** (0.018)	0.392*** (0.011)	0.440* (0.267)
SCMember*the 2nd year	0.039** (0.019)	0.055*** (0.017)	-0.016 (0.013)	0.112 (0.262)
SCMember*1 year after	-0.352*** (0.022)	-0.297*** (0.020)	-0.196*** (0.016)	-0.111 (0.277)
Lncpi	-0.873*** (0.001)	-0.801*** (0.001)	-0.265*** (0.001)	-0.265 (0.971)
Lngdp	-3.122*** (0.000)	-3.008*** (0.000)	-1.653*** (0.000)	-1.562 (2.059)
Lncapitagdp	2.363*** (0.000)	2.446*** (0.000)	0.490*** (0.000)	0.565 (2.485)
Trade	0.788*** (0.003)	0.772*** (0.003)	0.283*** (0.002)	0.596 (0.788)
Labour	-22.216*** (0.006)	-21.117*** (0.006)	-11.281*** (0.004)	-11.099 (14.228)
Resource	-1.588*** (0.009)	-1.501*** (0.009)	-1.133*** (0.006)	-1.261 (0.954)
Outflowshare	0.197*** (0.039)	0.182*** (0.036)	0.666*** (0.023)	0.640 (0.833)
Lninflow	0.117*** (0.000)	0.100*** (0.000)	0.092*** (0.000)	0.043 (0.088)
Conflict	0.630*** (0.009)	0.571*** (0.009)	0.227*** (0.006)	0.265 (0.746)
Law	-0.279*** (0.005)	-0.228*** (0.004)	-0.259*** (0.003)	0.056 (0.978)
L.lnvalue	0.685*** (0.001)			
L.project		0.643*** (0.001)		
L.whether			0.694*** (0.008)	
L.lnavevalue				1.035*** (0.190)

(Continues)

TABLE 6 (Continued)

Variables	(1) Lnvalue	(2) Lnavevalue	(3) Project	(4) Whether
Constant	48.052*** (0.004)	45.786*** (0.004)	25.495*** (0.003)	33.644 (32.555)
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Sector FE	Yes	Yes	Yes	Yes
Observations	12,353	12,353	12,353	6,523

Notes. Robust standard errors in parentheses.

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

during its first year on the council in 2013. China invested a new project worth \$110 million in Japan during the second year of its term in 2006, and the value is similar to the one in 2013. But China also invested five projects worth \$1,410 million in total in 2011 and three projects worth \$1,460 million in total in 2015.

On the other hand, during our research period of 2005–15, there were many more countries getting no investment from China during their tenure, even though they did not vote differently from China, such as Algeria in 2005, Burkina Faso, Costa Rica, Croatia and Vietnam in 2008, Guatemala and Morocco in 2013, Rwanda in 2013 and 2014, Chile and Luxembourg in 2014, Chad and Nigeria in 2014 and 2015, and Angola in 2015 as well.

When Argentina rotated onto the council in 2005, it abstained with China for two resolutions on Darfur. Argentina did not get any Chinese OFDI in this term. Maybe it is because Argentina abstained again for another resolution on membership of the Organizational Committee of the Peacebuilding Commission while China voted for it. Argentina did get a new investment project of 120 million dollars from China in 2013 when serving on the council, but it was only 2% worth of the investment it got in 2011, no more investment in the second year of Argentina's tenure.

When Indonesia and Qatar abstained with China in 2007 on the establishment of a special tribunal for Lebanon, neither of them attracted any Chinese OFDI. South Africa also abstained for the same resolution and got an investment project worth \$5.6 billion from China, more than 20 times of the value invested 1 year before. If investment is the way to “buy votes,” it might not be rational for China to put all eggs in one basket like this.

To sum up, the evidence we find from the voting record is not so strong to support Hypothesis 3. Maybe this explanation does not hold at all, that is, China does not mean to invest with the purpose of gaining votes on the Security Council to pass a draft resolution. Or China has this purpose but has not succeeded yet. We are not able to check this possibility since we do not have access to the voting details of unpassed draft resolutions. Only the resolutions got passed are open in the UN records. Therefore, we still cannot reject this possibility.

Finally, we are going to check the Hypothesis 4 that China investing in non-permanent countries more is simply because when China wants to build up deeper relationship with some countries, the countries with considerable prestige and great power are China's first choice.

China is always willing to cooperate with countries all over the world for economic and peace building. At the 2002 APEC CEO Summit, China's Chairman at that time, Jiang Zemin, delivered a speech and mentioned that China advocates developing economic and trade relations with all countries in the world on the basis of equality and mutual benefit and is willing to strengthen cooperation and common development. In 2004, on the former paramount leader Deng Xiaoping's

birth centenary, Chairman Hu Jintao reiterated that China should strengthen and expand the communication and cooperation with all other countries and always be a firm force in maintaining world's peace and promoting common development. At the General Debate of the 63rd Session of the UN General Assembly in 2008, Premier Wen Jiabao reiterated that China stands ready to work with other countries to advance the noble cause of peace and progress of mankind. In addition, in the keynote speech at the Opening Session of the World Economic Forum Annual Meeting 2017, Chairman Xi Jinping gave a positive evaluation on China's efforts to cooperate globally. He said, the interconnected development of China and a large number of other countries has made the world economy more balanced.

So how to cooperate? Outward foreign direct investment is one of the methods which can create more capital and more business opportunities for other countries. As Chairman Xi said in Davos in 2017, after he put forward the Belt and Road initiative, Chinese companies have made over 50 billion US dollars of investment and launched a number of major projects in the countries along the routes, spurring the economic development of these countries and creating many local jobs.

Then who to cooperate with? Non-permanent membership on the UN Security Council is one of the features which can attract China's interests except for economic incentives. Serving on the council can enhance one country's influence on world issues, improve its international reputation and national status and hence raise its visibility on the international stage. Especially for those countries which do not have much connection or closed relationship with China, once they rotate onto the council, it is the high time for them to remind China of their importance and start dialogues for peace and economy. This mechanism can also help to explain why compared to countries from the Asia-Pacific group and African group, the effect of non-permanent membership is larger for the countries from the Western European and Others Group, as well as the Latin America and the Caribbean Group. This is because China has a Belt and Road initiative with Asian, Eastern European and North African countries, and China provides considerable aid to Africa. China has already formed close friendships with Asia and Africa, so investing in non-permanent members is a supplementary way to build up connection for the countries not along the routes of Belt and Road initiative, which locates mainly in Western Europe and Latin America.

Even though the definition of Belt and Road was first introduced by Chairman Xi in 2013, it dates back thousands of years to China's Silk Road. The Silk Road was an ancient trade network of both the terrestrial and the maritime routes connecting Asia with Africa, the Middle East and southern Europe. It expanded in the Han Dynasty around 114 BCE and derived its name from the trade in silk, which was the major trade item exported from China. Besides silk, many other kinds of goods, religions, syncretic philosophies and various technologies were also traded. Political and economic relations between the civilisations along the routes have already been built up since then and become more and more profound over thousands of years. Therefore, we believe that the cooperation between China and countries in the Belt and Road initiative began much earlier than our research period of 2005–15. We would like to use the identity of Belt and Road countries as proxy for the ones which have a close relationship with China.

In the following, we introduce the definition of Belt and Road into our regression models to examine Hypothesis 4. Table A4 lists countries on the Belt and Road. By 2016, there are 65 countries in total including China. The Russian Federation is not in our data set because it is a permanent country; neither is Palestine because it is not a UN member, nor are Myanmar and Syria because we do not have their GDP data or per capita GDP data.

We construct a dummy *nonB&R* for each country and index it to be 1 if this country is not on the Belt and Road and 0 if it is. Next, we introduce it into Equation (1) and interact it with *SCMember* to determine whether China invests more in countries which do not belong to the Belt

TABLE 7 Impact of the UN Security Council nonpermanent membership not on Belt and Road

Variables	(1) Lnvalue	(2) Lnavevalue	(3) Project	(4) Whether
SCMember*nonB&R	1.295*** (0.059)	1.232*** (0.055)	0.957*** (0.041)	0.889** (0.409)
SCMember	-0.431*** (0.051)	-0.426*** (0.048)	-0.457*** (0.035)	-0.329 (0.342)
Lncpi	-0.858*** (0.001)	-0.793*** (0.001)	-0.173*** (0.001)	-0.188 (0.984)
Lngdp	-3.088*** (0.000)	-2.947*** (0.000)	-2.078*** (0.000)	-1.942 (2.223)
Lncapitagdp	2.020*** (0.000)	2.096*** (0.000)	0.730*** (0.000)	0.677 (2.586)
Trade	0.669*** (0.003)	0.659*** (0.003)	0.188*** (0.002)	0.477 (0.790)
Labour	-17.332*** (0.007)	-16.702*** (0.006)	-8.501*** (0.004)	-8.078 (14.736)
Resource	-1.665*** (0.010)	-1.568*** (0.010)	-1.185*** (0.006)	-1.289 (0.911)
Outflowshare	0.165*** (0.036)	0.161*** (0.034)	0.638*** (0.018)	0.644 (0.813)
Lninflow	0.091*** (0.001)	0.076*** (0.000)	0.075*** (0.000)	0.028 (0.088)
Conflict	0.496*** (0.008)	0.450*** (0.007)	0.146*** (0.005)	0.205 (0.744)
Law	-0.356*** (0.005)	-0.303*** (0.004)	-0.294*** (0.003)	0.016 (0.927)
L.lnvalue	0.667*** (0.001)			
L.project		0.625*** (0.001)		
L.whether			0.685*** (0.008)	
L.lnavevalue				1.023*** (0.201)
Constant	47.024*** (0.005)	44.528*** (0.005)	31.209*** (0.003)	39.752 (35.708)
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Sector FE	Yes	Yes	Yes	Yes
Observations	12,353	12,353	12,353	6,523

Notes. Robust standard errors in parentheses.

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.



and Road initiative when they rotate onto the Security Council. The regression is shown in Equation (6), and the regression result is shown in Table 7:

$$Y_{its} = \alpha + \beta_1 SCMember_{it} * nonB\&R_i + \beta_2 SCMember_{it} + \mathbf{X}_{its}\delta + \boldsymbol{\eta}_t + \boldsymbol{\mu}_i + \boldsymbol{\gamma}_s + \varepsilon_{its} \quad (6)$$

The result in Table 7 indicates that if a country is not included in the Belt and Road initiative (with which China has close corporation in economy and trade), China will invest in it more when it rotates onto the UN Security Council. The investment value and average value per project will increase by 265% and 243%, respectively. On average, 0.96 more projects will be invested in and the probability of being invested will raise by 0.89.

This result coincides with our findings in Table 3 that countries from Western Europe as well as Latin America and the Caribbean Group will attract more Chinese OFDI than those belonging to Asia–Pacific Group and African Group, since the formers are precisely the ones which are not on the Belt and Road. This result can verify our explanation that China is actively looking for cooperation with each country as it advocates, and the countries that are prestigious and influential attract China's interest most, especially those with which China has not built up close relations yet.

5 | CONCLUSIONS

Since the UN's foundation in 1945, the Security Council has made great contributions to world peace as one of the UN's six principal organs. The five permanent members and ten non-permanent members of the council share the responsibility of maintaining world peace by voting together on Security Council resolutions. From a Security Council membership perspective, we try to investigate whether Chinese OFDI is influenced by political incentives.

We constructed an unbalanced panel data with country-sector-level data of investments, for a period of 11 years. We find that when one country rotates onto the Security Council, it will attract more Chinese OFDI, mainly from energy, finance, real estate, tourism and transport sectors, while the investment in agriculture, metals and technology sector decreases. Countries from the Western European and Other Group and the Latin American and Caribbean Group enjoy more increased investment than countries from the Asia–Pacific Group and the African Group. Such positive effect of non-permanent membership is larger during the important years when the UN Security Council is more newsworthy. The effect on Chinese OFDI is driven by this status itself, not other omitted variables, nor adversely. This is consistent with the hypothesis that China is looking for cooperation opportunities actively, especially for those who have not cooperated closely with China before. We do not find strong evidence from the vote records that can support the vote-buying hypothesis about China, but we cannot reject it either.

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APPENDIX

TABLE A1 Who serves on the Security Council

Country	Term	Country	Term
<i>Africa</i>		<i>Eastern Europe</i>	
Algeria	2005	Azerbaijan	2012–13
Angola	2015	Bosnia and Herzegovina	2010–11
Benin	2005	Croatia	2008–09
Burkina Faso	2008–09	Lithuania	2014–15
Chad	2014–15	Romania	2005
Congo	2006–07	Slovakia	2006–07
Gabon	2010–11		
Ghana	2006–07	<i>Lain America/Caribbean</i>	
Libya	2008–09	Argentina	2005–06, 2013–14
Morocco	2012–13	Brazil	2005, 2010–11
Nigeria	2010–11, 2014–15	Chile	2014–15
Rwanda	2013–14	Colombia	2011–12
South Africa	2007–08, 2011–12	Costa Rica	2008–09
Togo	2012–13	Guatemala	2012–13
Uganda	2009–10	Mexico	2009–10
United Republic of Tanzania	2005–06	Panama	2007–08
		Peru	2006–07
<i>Western Europe and other</i>		Venezuela	2015
Australia	2013–14		
Austria	2009–10	<i>Asia-Pacific</i>	
Belgium	2007–08	India	2011–12
Denmark	2005–06	Indonesia	2007–08
Germany	2011–12	Japan	2005–06, 2009–10
Greece	2005–06	Jordan	2014–15
Italy	2007–08	Lebanon	2010–11
Luxembourg	2013–14	Malaysia	2015
New Zealand	2015	Pakistan	2012–13
Portugal	2011–12	Philippines	2005
Spain	2015	Qatar	2006–07
Turkey	2009–10	Republic of Korea	2013–14
		Vietnam	2008–09

TABLE A2 Total number of newspaper articles in each year

Year	<i>New York Times</i>	EBSCO
2005	51	59
2006	112	148
2007	93	119
2008	66	111
2009	72	141
2010	98	145
2011	101	199
2012	126	206
2013	32	117
2014	49	146
2015	46	146

TABLE A3 Impact of the UN Security Council non-permanent membership in important year, EBSCO database

Variables	(1) Lnvalue	(2) Lnavevalue	(3) Project	(4) Whether
SCM*importantyear	0.702*** (0.060)	0.649*** (0.056)	0.507*** (0.044)	0.668 (0.438)
SCMember	0.079* (0.045)	0.074* (0.042)	-0.075** (0.033)	-0.143 (0.357)
Lncpi	-0.831*** (0.001)	-0.768*** (0.001)	-0.224*** (0.001)	-0.236 (0.945)
Lngdp	-3.130*** (0.000)	-2.994*** (0.000)	-1.659*** (0.000)	-1.491 (2.046)
Lncapitagdp	2.164*** (0.000)	2.243*** (0.000)	0.364*** (0.000)	0.273 (2.455)
Trade	0.752*** (0.004)	0.737*** (0.003)	0.284*** (0.002)	0.589 (0.764)
Labour	-20.612*** (0.006)	-19.803*** (0.006)	-10.042*** (0.004)	-10.326 (14.170)
Resource	-1.597*** (0.009)	-1.506*** (0.009)	-1.150*** (0.005)	-1.222 (0.925)
Outflowshare	0.089** (0.037)	0.091*** (0.035)	0.571*** (0.018)	0.602 (0.806)
Lninflow	0.113*** (0.000)	0.096*** (0.000)	0.089*** (0.000)	0.041 (0.092)
Conflict	0.533*** (0.008)	0.486*** (0.007)	0.172*** (0.005)	0.223 (0.748)

(Continues)

TABLE A3 (Continued)

Variables	(1) Lnvalue	(2) Lnavevalue	(3) Project	(4) Whether
Law	-0.340*** (0.005)	-0.288*** (0.004)	-0.286*** (0.003)	0.032 (0.942)
L.lnvalue	0.675*** (0.001)			
L.project		0.632*** (0.001)		
L.whether			0.690*** (0.008)	
L.lnavevalue				1.024*** (0.198)
Constant	48.680*** (0.004)	46.176*** (0.004)	25.671*** (0.003)	33.331 (32.475)
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Sector FE	Yes	Yes	Yes	Yes
Observations	12,353	12,353	12,353	6,523

Notes. Robust standard errors in parentheses.

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

TABLE A4 List of countries on the Belt and Road (except China)

Afghanistan	Estonia	Malaysia	Serbia
Albania	Georgia	Maldives	Singapore
Armenia	Hungary	Mongolia	Slovakia
Azerbaijan	India	Montenegro	Slovenia
Bahrain	Indonesia	Myanmar	Sri Lanka
Bangladesh	Iran	Nepal	Syrian Arab Republic
Belarus	Iraq	Oman	Tajikistan
Bhutan	Israel	Pakistan	Thailand
Bosnia and Herzegovina	Jordan	Palestine	The former Yugoslav Republic of Macedonia
Brunei Darussalam	Kazakhstan	Philippines	Turkey
Bulgaria	Kuwait	Poland	Turkmenistan
Cambodia	Kyrgyzstan	Qatar	Ukraine
Croatia	Lao People's Democratic Republic	Republic of Moldova	United Arab Emirates
Czech Republic	Latvia	Romania	Uzbekistan
East Timor	Lebanon	Russian Federation	Vietnam
Egypt	Lithuania	Saudi Arabia	Yemen