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A Friend in Need is a Friend Indeed: Can China's Export and Investment Promote the Export Sophistication of the Belt-Road Countries?

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Using a comprehensive dataset over the 2010-2015 period, we investigate the effect of China's export and investment on the export sophistication of the host countries, especially on those involved in the One Belt and One Road (OBOR) initiative. Export sophistication is measured as proxy of the Global Value Chain position of the host countries. Using a loglinear model, we find that China's export can significantly increase the export sophistication of the host countries hence promote their positions in the GVC. The positive effect of China's export is much larger and more significant in the OBOR countries than that in the non-OBOR countries. China's OFDI has played an insignificant or negative role in the GVC upgrading of the host countries. Further research using double-threshold model shows that there are significant threshold effects between China's OFDI and host countries' export sophistication. And, the impact of OFDI on GVC upgrading is generally following a declining type across regions of the productivity of host countries. When the GDP per capita of the host countries are lower than the first threshold (about 1,141 US\$) or between the first and second (about 7,174 US\$) thresholds, the impact of China's OFDI on their export sophistication is significantly positive. However, China's OFDI still has no effect on the high income host countries beyond the second threshold. After we control the threshold effect of China's OFDI, the effects of China's export and OFDI are no longer significantly different between the OBOR and non-OBOR host countries.