

**Independent study title:** The Impact of Financing Structure on Enterprise's Overseas Direct Investment: A Case of A-share Listed Companies in China

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### Abstract

In recent years, China has experienced rapid and robust growth in outward direct investment. It has now emerged as the world leader in terms of outward direct investment flow. As China's foreign investment framework continues to improve, an increasing number of enterprises are engaging in global trade through foreign investment. These enterprises require sufficient funds for overseas investment, which can be obtained through internal accumulation or external financing. However, internally accumulated funds are typically only applicable to the initial stages of investment, necessitating external sources to support later stages. The different sources of financing lead to varying financing structures, which may have a significant impact on enterprises' foreign investment activities.

This research reviewed relevant literature and theories to analyze the influence of financing structure on enterprises' overseas direct investment and the underlying mechanisms of this influence. The study utilized panel data from 1,725 Chinese A-share listed companies spanning the years 2000 to 2020, sourced from Guotai'an and WIND. The debt-to-equity ratio index was used to measure corporate financing structure, and the model incorporated control variables at the enterprise level. The benchmark regression employed the Probit model, while robustness tests were conducted using the Logit and negative binomial panel models. Additionally, the influence mechanism was analyzed from the perspectives of enterprise innovation, research and development, productivity, as well as heterogeneity analysis and endogeneity testing. The finding from this research was that financing structure significantly affected enterprises' overseas direct investment. A higher proportion of equity financing in the financing structure of enterprises facilitated the generation and expansion of overseas investment projects. Financing structure influenced enterprises' overseas direct investment through its impact on innovation, research and development, and productivity. Specifically, a higher proportion of equity financing in the financing structure of enterprises drives increased innovation and research, consequently enhancing enterprise productivity. Industry heterogeneity analysis revealed that the financing structure of manufacturing enterprises does not have a significant impact on their overseas direct investment. Finally, based on the empirical results, several suggestions are proposed from the perspectives of corporate financing structure and government intervention.

**Keywords:** Foreign Direct Investment, Corporate Financing Structure, Financing Stability, Financing Cost, Agency Cost

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