



Assessing the Influence of China's WTO Accession on Global Stock Market Volatility, Cross-border Financial Policies, and Supply Chain Realignments

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ABSTRACT

This study examines how China's WTO membership affects global stock market volatility, FDI, and supply chain realignments to understand its effects on global economic patterns and financial flows. The 2001 WTO membership of China changed global trade, investment, production, and market behaviour. This mixed-method study examines China's WTO accession's many effects quantitatively and qualitatively. In a 2001–2022 dataset, a VAR model shows dynamic variable interdependencies. Stock market returns (SMR), volatility (VOL), interest rates (IR), and inflation rates spread economic shocks across interconnected markets in this model. VAR shows financial volatility and how past stock market returns affect future markets. For context, the study uses qualitative data from 100 policy documents, trade agreements, company reports, and 50 in-depth interviews with policymakers, industry experts, and business leaders. Complex feedback mechanisms in financial markets show that past stock market returns statistically affect future volatility and returns. Regional economic shocks affect stock markets worldwide, demonstrating global financial integration. China's changing role in the global economy is explained by quantitative financial analysis and qualitative policy and industry insights. This study examines China's policy shift's multi-layered effects on markets, supply chains, and financial systems, unlike previous trade flow or FDI studies. These findings can help policymakers and business leaders, especially in emerging markets, design strategic reforms to boost economic resilience, attract sustainable FDI, and manage supply chain realignments. The study recommends forward-looking infrastructure investments and adaptive economic policies to capitalize on China's economic transformations and trade dynamics for long-term growth, stability, and competitiveness.

Keywords: World Trade Organization (WTO), Stock Market Prices, Investment, Supply Chain Realignments, Financial Policies.

INTRODUCTION

China's 2001 WTO membership boosted economic liberalisation and changed global trade, financial flows, and investment patterns. China joined the WTO to open its markets and align its economic policies with global trade rules, removing trade barriers. This policy shift attracted foreign investors and multinational corporations to China, boosting industrialisation, urbanisation, and economic modernisation. Foreign investors' rapid capital inflow and technology transfers gave China a global manufacturing advantage and made it a low-cost production hub. However, as China integrated into the global economy, financial markets, cross-border policies, and supply chains changed, affecting stock market volatility, corporate financial management, and global economic governance (Du & Lu, 2018; Jung & Park, 2024).

China's industrialisation and global supply chains were reshaped by WTO membership as companies moved production facilities to China to take advantage of its competitive manufacturing environment, low labour costs, and well-developed infrastructure. The "world's factory", China, supplied goods to markets worldwide, but rapid globalisation created new dependencies and vulnerabilities. China increasingly controlled supply chains in

electronics, pharmaceuticals, and automotive, so disruptions in Chinese manufacturing hubs could impact global markets. Chinese supply chain bottlenecks caused shortages of raw materials and essential products during the COVID-19 pandemic, causing stock market volatility and forcing companies to rethink their global production strategies. China's role in global supply chains and how its economic shifts affect financial stability and stock prices are crucial to this study as countries and corporations balance cost-efficiency with supply chain resilience (Liu, Li, Jiang, & Liu, 2024; Luo, 2024).

China's economic growth and policy decisions have made global stock prices more sensitive to Chinese market conditions, economic cycles, and geopolitics. China's rapid industrial growth and market access have influenced global trade, institutional investors, asset managers, and multinational corporation strategies. As China integrates into the global economy, stock market volatility driven by GDP growth, inflation, and trade balances has become a global financial market feature. A Vector Autoregressive (VAR) model is used to examine how Chinese economic shocks affect foreign financial markets. Stock market returns, volatility, interest rates, and inflation are economic variables. VAR shows how past stock returns affect future market behaviour and how interconnected markets spread economic shocks across borders (Athukorala & Hill, 2023; Larionova, 2023; Zhao, 2022).

Besides stock market dynamics, China's WTO accession has increased capital flow between China and other nations, requiring new regulatory frameworks to manage financial globalisation risks. Growing financial interactions between China and the world have forced policymakers to reform to facilitate cross-border investment and reduce market volatility, currency fluctuations, and regulatory discrepancies. China's stock and bond portfolios have grown significantly over the past two decades due to investor confidence in its economy and policy shifts. As FDI into China has diverted investment from other emerging markets, countries competing with China for foreign capital have had to adapt to attract and retain investors. This research examines the complex relationship between cross-border financial policies, capital flows, and stock market behaviour to better understand financial globalisation and its strategic implications for investors and policymakers (Nandipati, 2021; Sum, 2020).

China's integration into the global economy has boosted economic growth, but it has also changed corporate practices, financial management, and governance structures as firms must meet international standards to attract foreign investors and participate in global markets. Globalization's impact on corporate governance has led Chinese companies to reform their internal processes to meet global transparency, board diversity, and financial reporting standards. Corporate financial management strategies have changed, and this study examines how companies balance short-term market expectations with long-term strategic goals. The research also examines how multinational corporations in China manage currency risks, navigate local regulations, and adapt their financial strategies to China's changing economic policies (Cotula, 2023; Sehgal, Ahmad, Pandey, & Saini, 2020).

This multidimensional study uses quantitative and qualitative methods to understand how China's WTO accession affects global economic dynamics. This study examines financial management, stock market behaviour, and global supply chain realignment to shed light on economic policies and markets. Trade volumes and GDP growth have been studied. A Vector Autoregressive (VAR) model found causal relationships between key economic variables, while qualitative insights from policy documents, trade agreements, company reports, and expert interviews grounded the analysis in reality (Cross & Tan, 2012; Seong et al., 2024). This study examines China's global economy integration challenges and opportunities using statistical modelling and qualitative analysis.

This research helps policymakers, business leaders, and investors achieve sustainable growth and financial stability through China's economic transformations. As China moves from manufacturing to services, technology, and innovation, its economic policies and market developments will increasingly affect global economic trends. Stakeholders must understand them. This study provides practical advice for emerging market policymakers seeking foreign direct investment and business leaders adapting their supply chains and financial strategies to changing economic conditions. This research examines the interconnected dynamics of stock markets, financial management, and supply chains to better understand the global economic landscape and the strategic responses needed to navigate financial globalisation in the context of China's rise as a global economic powerhouse.

LITERATURE REVIEW

Chinese WTO membership in 2001 affected stock market volatility, FDI, financial management, and cross-border financial policies. This literature review critically assesses past studies' strengths and weaknesses and finds unexplored gaps to synthesise key findings on these themes. For clarity, coherence, and relevance to the current study, this analysis divides the review into sections on WTO membership's effects on financial markets,

investment flows, financial management practices, and policy realignments (Sauvant, 2021; Seong et al., 2024).

China's integration into the global economy has increased global stock markets' sensitivity to Chinese economic indicators, but studies quantify and understand these effects differently. China's economic growth boosts global stock market sentiment, especially during industrial expansion and rising GDP, but policy uncertainty or economic slowdowns cause volatility. Study shows that China's manufacturing output or trade performance can affect other financial markets, showing how interconnected modern economies are. Some research ignores China's economic cycles' long-term effects on global markets, despite consensus on stock market volatility. To find trends that previous research missed, this study examines the immediate and sustained effects of China's economic transitions on stock market behaviour over time (Cross & Tan, 2012; Ekhardt & Breese, 2023; Lee & Sims, 2024; Sauvant, 2021).

Since China joined the WTO, many studies have examined how MNCs have reoriented their investment strategies to take advantage of China's vast market potential, competitive production costs, and strategic location in global supply chains. Research shows that FDI has helped Chinese firms compete in domestic and international markets by providing capital, technology, and management. However, this literature is limited. Some studies look at the overall increase in FDI, but few at specific Chinese industries or regions. Foreign capital dependence risks like external shocks and capital flow volatility are ignored in favour of FDI benefits. FDI has influenced financial management in various sectors, particularly how Chinese companies manage capital flow risks (Babic & Linsi, 2024; Qiang, Liu, & Steenbergen, 2021).

Companies have had to reform their financial management and corporate governance to meet international transparency, accountability, and disclosure standards since WTO membership liberalised China's economy. Studies show that many Chinese firms have tightened financial reporting, appointed independent directors, and strengthened shareholder protections to attract and retain capital due to foreign investor expectations. The literature suggests some industries have lagged in governance reforms. Research emphasises transparency and accountability but ignores the challenges firms face in balancing these expectations with local business practices and regulatory constraints. For new insights, this study examines corporate governance reforms across sectors and how firms balance international standards and domestic business environments (Lee & Sims, 2024; Sum, 2020).

This study fills gaps in China's WTO membership's effects on stock markets, investment flows, corporate governance, and financial policies. Most research focuses on short-term market reactions or trade volumes, not China's economic transitions' long-term effects on global financial markets. Second, while the literature emphasises the aggregate benefits of FDI and corporate governance reforms, there is little analysis of how these developments vary across sectors and industries, leaving unanswered questions about how globalisation affects Chinese firms differently. Third, many studies use quantitative methods like econometric modelling without qualitative insights to understand financial management reforms' practical challenges and opportunities. This mixed-methods study examines the complex relationships between economic policies, financial markets, and corporate practices using a Vector Autoregressive (VAR) model and qualitative data from policy documents, trade agreements, and expert interviews.

The literature shows that China's WTO membership has severely impacted global economic dynamics, including stock market volatility, investment strategies, financial management, and cross-border policies. China's economic integration's long-term, sectoral, and firm governance reform effects are poorly studied. This study addresses these gaps to illuminate the interconnectedness of financial markets, economic policies, and corporate practices and offers policymakers, investors, and business leaders practical advice for financial globalisation in the context of China's rise as a global economic powerhouse.

METHODOLOGY

This study used mixed methods for the investigation of Stock market volatility, foreign direct investment, and supply chain realignments. This mixed-method study finds that China's WTO membership affects global stock market volatility, cross-border financial policies, and supply chain realignments. Quantitative financial data analysis and qualitative policy and supply chain assessments are used. The complex effects of China's WTO accession are studied using both methods. A quantitative study examines S&P 500, FTSE 100, Nikkei 225, and Shanghai Composite stock market data. The daily closing prices of these indices before and after China's WTO accession in December 2001 are compared. The main dataset includes pre- and post-accession volatility from 2001 - 2022. Quantitative analysis uses stock returns, standard deviation, VIX, and trading volumes. Some variables show market and investor behaviour. The study analyses volatility and returns with GARCH and ARIMA. Financial market dynamics are captured by time-series econometric models (Larionova, 2023; Luo, 2024).

Assessing cross-border financial policy and supply chain realignments qualitatively. This section of the study uses WTO, IMF, and World Bank policy documents, trade agreements, and reports. The analysis covers post-WTO policy changes that increased FDI and trade liberalisation. Policymakers, industry experts, and business leaders are interviewed to assess these policy changes' impact. Foreign trade, finance, and supply chain management skills are sought. Thematic analysis finds policy and business strategy trends in qualitative data. Global electronics, automotive, and textile supply chain realignments are examined. Company reports, trade flows, and production locations map supply chain shifts. MNCs that restructured their supply chains after China joined WTO are examined. We study how China's WTO accessions affect stock market volatility and investment decisions.

These governance variables are assessed using regression analysis, controlling for market and macroeconomic indicators. The analysis examines whether stronger governance firms can adapt to China's WTO membership. The study examines investment patterns. The study examines China-related FDI and portfolio investment changes. FDI data from UNCTAD and national statistics bureaus, portfolio investment data from Bloomberg and Thomson Reuters. The analysis examines investment flow causes and trends. According to the study, China's WTO membership affects financial decisions, particularly capital structure and dividend policies. Assessing interest coverage, dividend payout, and debt-to-equity ratios. Company financial statements and databases provide data. We prioritise global stock market integration and co-movement post-WTO. The study examines regional stock index correlation and co-integration. Market relationships are tested using Johansen co-integration and Granger causality. This study examines how macroeconomic policies affect stock market volatility and investment decisions. We examine interest, inflation, and exchange rates. Government reports, central banks, and IFIs provide macroeconomic indicators. The dynamic interactions of these variables with stock market outcomes are examined using VAR models.

Quantitative methods like GARCH, ARIMA, and VAR models capture financial market and economic variable dynamics. GARCH models stock market volatility by accounting for time-varying variance and clustering effects for markets sensitive to economic events like China's WTO accession. ARIMA forecasts stock returns using historical trends and seasonal patterns, making it ideal for long-term market analysis. The VAR model examines time-series variables like stock returns, interest rates, and inflation without causality. This is crucial to understanding how Chinese economic shocks affect global financial markets. For deeper and more accurate analysis, these models capture non-linear patterns, volatility persistence, and financial system feedback loops.

Quantitative and qualitative methods must capture China's WTO membership's complex effects. Quantitative analysis can show market trends, volatility, and stock market co-movements, but not policy shifts, strategic business decisions, or socio-economic factors. This mixed-methods approach applies data-driven insights to policy contexts, making the study's findings robust (Jung & Park, 2024). To ensure validity and reliability, the study addresses data collection and analysis biases. Bloomberg, stock market indices, and national statistical bureaus provide great quantitative data. Government officials, industry experts, and business leaders from various sectors balance China's economic transformation. The study also notes that GARCH's outlier sensitivity and ARIMA's historical trend dependence may limit predictive power during unprecedented events. The methodology emphasises financial research over technical jargon to simplify VAR models. Structured analysis of policy documents identifies key themes and trends that support the study's goals, ensuring coherent findings and a research narrative.

The study also examines China's WTO membership's trade, growth, and employment effects. These economic indicators come from national statistical agencies, the World Bank, and the IMF. WTO accession's impact on these economic variables is measured by econometric models. Study suggests policies. These suggestions advise post-WTO financial market and supply chain policymakers, investors, and businesses. Evidence-based advice promotes stability, growth, and sustainability. This quantitative and qualitative study examines China's WTO membership's impact on global stock markets, financial policies, and supply chain realignments. The mixed-method approach helps policymakers, investors, and business leaders understand these impacts' complexity and interconnectedness.

VAR Model Equation

The Vector Autoregression (VAR) model for this study includes several key variables: stock market returns (SMR), volatility (VOL), foreign direct investment (FDI), interest rates (IR), and inflation rates (INF). The general form of the VAR model can be expressed as [Figure 1](#):

$$\begin{aligned}
\text{SMR}_t &= \alpha_1 + \beta_{11}\text{SMR}_{t-1} + \beta_{12}\text{VOL}_{t-1} + \beta_{13}\text{FDI}_{t-1} + \beta_{14}\text{IR}_{t-1} + \beta_{15}\text{INF}_{t-1} + \epsilon_{1t} \\
\text{VOL}_t &= \alpha_2 + \beta_{21}\text{SMR}_{t-1} + \beta_{22}\text{VOL}_{t-1} + \beta_{23}\text{FDI}_{t-1} + \beta_{24}\text{IR}_{t-1} + \beta_{25}\text{INF}_{t-1} + \epsilon_{2t} \\
\text{FDI}_t &= \alpha_3 + \beta_{31}\text{SMR}_{t-1} + \beta_{32}\text{VOL}_{t-1} + \beta_{33}\text{FDI}_{t-1} + \beta_{34}\text{IR}_{t-1} + \beta_{35}\text{INF}_{t-1} + \epsilon_{3t} \\
\text{IR}_t &= \alpha_4 + \beta_{41}\text{SMR}_{t-1} + \beta_{42}\text{VOL}_{t-1} + \beta_{43}\text{FDI}_{t-1} + \beta_{44}\text{IR}_{t-1} + \beta_{45}\text{INF}_{t-1} + \epsilon_{4t} \\
\text{INF}_t &= \alpha_5 + \beta_{51}\text{SMR}_{t-1} + \beta_{52}\text{VOL}_{t-1} + \beta_{53}\text{FDI}_{t-1} + \beta_{54}\text{IR}_{t-1} + \beta_{55}\text{INF}_{t-1} + \epsilon_{5t}
\end{aligned}$$

Figure 1. The general form of VAR model

Here:

α_i are the intercept terms.

β_{ij} are the coefficients that measure the influence of the lagged values of each variable on the current value of each dependent variable.

ϵ_{it} are the error terms. For the measurement of variables, table 1 shows the measurement and source of all variables.

Table 1. Variable Measurements

Variable	Measurement	Source
Stock Market Returns (SMR)	Percentage Change in Daily Closing Prices of Stock Indices	Financial Databases (e.g., Bloomberg, Thomson Reuters)
Volatility (VOL)	Standard Deviation of Stock Market Returns or VIX Index	Financial Databases (e.g., Bloomberg, Thomson Reuters)
Foreign Direct Investment (FDI)	Annual Net Inflows of FDI (USD)	UNCTAD, National Statistics Bureaus
Interest Rates (IR)	Annual or Monthly Central Bank Interest Rates (%)	Central Bank Reports, IMF
Inflation Rates (INF)	Annual Percentage Change in Consumer Price Index (CPI)	National Statistical Agencies, World Bank

Finally, the VAR model lets you study stock market returns and volatility, FDI, interest rates, and inflation. Studying these relationships can reveal China's WTO-related dynamic interactions.

Vector Autoregressive (VAR) models can handle multivariate time series data and capture dynamic interrelationships, making them ideal for assessing China's WTO accession's impact on global stock market volatility, cross-border financial policies, and supply chain realignments. Stock market returns, volatility, FDI, interest rates, and inflation are managed by VAR. Multivariate analysis is needed because these variables affect each other and external economic shocks. Endogeneity and feedback are essential to understanding these economic indicators' VAR model bidirectional relationships. After China joins the WTO, policy changes can have complex ripple effects on global markets, making this capability crucial. Impulse response analysis and variance decomposition make the VAR model useful for this research. Impulse response analysis tracks economic shocks by quantifying the impact of a shock—like a policy change after China's WTO accession—on other variables over time. In post-accession economic dynamics, variance decomposition shows each variable's forecast error variance contribution and its relative importance. This comprehensive approach analyses historical trends, structural changes, and policy shifts. China's WTO integration's far-reaching economic effects must be studied using the VAR model's robustness, flexibility, and analytical depth.

DATA ANALYSIS

To ensure reliable time-series analysis, Augmented Dickey-Fuller (ADF) unit root tests tested key economic variables for stationarity. SMR and IR were stationary, but FDI was not. SMR is stationary because its ADF test statistic of -3.456 and p-value of 0.012 rejects the unit root null hypothesis. This suggests that stock return mean and variance remain stable and that shocks to returns are temporary, reverting to the long-term mean. IR's stationarity (ADF = -4.112, p = 0.001) suggests that interest rates stabilise after monetary policy changes.

Due to FDI's non-stationarity (ADF = -1.234, p = 0.657), capital inflows can shift investment mean and

variance over time. FDI fluctuations due to market conditions, investor confidence, or global economy structural shifts affect long-term economic analysis. In contrast, inflation (INF) was stationary (ADF = -3.789, $p = 0.009$), suggesting inflationary shocks are short-lived and stabilise around their historical mean. VOL has borderline stationarity (ADF = -2.897, $p = 0.045$), so market spikes and drops are usually contained and the market returns to its long-term average volatility. Based on stationarity results, the VAR model differencing non-stationary variables like FDI ensures analysis robustness and reliability.

Table 2 shows the descriptive statistics of variables. The mean of 128.469562 and median of 129.003619 indicate investment inflow consistency, but the standard deviation of 32.791511 ranges from 63.685870 to 188.874518. Changes in investor sentiment and market conditions may explain this. Interest Rates (IR) average is 2.990930 with a median of 3.054055, but the range from 1.369802 to 4.895889 suggests economic and central bank fluctuations. Finally, inflation (INF) has a stable average of 2.195984, with a standard deviation of 0.547893, staying from 1.326120 to 2.971811. These descriptive statistics show economic indicators' key patterns and variability, helping interpret their behaviour over time and within the study.

Table 2. Descriptive Statistics of Key Variables

Variable	Mean	Median	Standard Deviation	Minimum	Maximum
SMR	0.114686	0.110807	0.159663	-0.332948	0.386134
VOL	20.179616	19.646437	6.088626	10.096018	31.348773
FDI	128.469562	129.003619	32.791511	63.685870	188.874518
IR	2.990930	3.054055	0.996866	1.369802	4.895889
INF	2.195984	2.189589	0.547893	1.326120	2.971811

Stock Market Returns (SMR), Volatility (VOL), Foreign Direct Investment (FDI), Interest Rates (IR), and Inflation Rates (INF) are interdependent, as shown by the VAR model coefficients in Table 3. Strong baseline effects are indicated by all variables' intercept coefficients with p-values below 0.01. SMR's intercept is 0.03 with a standard error of 0.01, while VOL's is 15.2 with 2.5, justifying these starting points. Highly significant intercepts of 100, 2.5, and 1.8 for FDI, IR, and INF indicate stable long-term averages. The dynamic relationships between these variables explain market behaviour. VOL, FDI, and IR at time t-2 are significantly affected by past stock market returns (SMR) at time t-1, with coefficients of 0.4, 1.2, -0.5, and 0.3 at 1% or 5% Higher past returns increase volatility and future returns but decrease FDI, suggesting that volatile markets may deter long-term investment. Previous volatility strongly influences current volatility with a coefficient of 0.8, indicating volatile market conditions. Policy stability may increase financial inflows because past and present FDI and IR are positively correlated, indicating continuity. While inflation rates (INF) have little direct effect on FDI, they may affect volatility and market sentiment, which may affect investment.

Validity of VAR model depends on lag length. The optimal lag was determined by multiple criteria. AIC and HQIC recommend two lags to balance model complexity and fit, while the Bayesian Information Criterion (BIC) recommends one for parsimony. The model was given two lags to capture enough time dependencies between variables without overfitting, improving results reliability. Many diagnostic tests confirm model robustness. The model is correctly specified because the Portmanteau test for residual autocorrelation shows no significant residual autocorrelation with a chi-square statistic of 5.4 and p-value of 0.714. The residuals are normally distributed with a JB-statistic of 3.2 and p-value of 0.202, confirming the model's reliability. Granger causality tests predict volatility and IR from past SMR and FDI values (F-statistic = 6.5, p-value = 0.003). These findings emphasise the importance of understanding dynamic interactions between economic variables, especially in stock market behaviour, investment flows, and interest rate changes, as each affects the other over time.

Table 3. VAR Model Coefficients and Test Statistics

Variable	SMR Coefficient	VOL Coefficient	FDI Coefficient	IR Coefficient	INF Coefficient
Intercept	0.03 (0.01)***	15.2 (2.5)***	100 (15)***	2.5 (0.5)***	1.8 (0.4)***
SMR(t-1)	0.4 (0.1)***	1.2 (0.5)**	-0.5 (0.2)**	0.3 (0.1)***	-0.1 (0.05)**
VOL(t-1)	-0.1 (0.02)***	0.8 (0.1)***	0.4 (0.05)***	0.05 (0.01)***	0.02 (0.01)**
FDI(t-1)	0.02 (0.01)**	-0.04 (0.02)**	0.6 (0.1)***	-0.03 (0.01)***	0.05 (0.01)***
IR(t-1)	-0.05 (0.02)**	0.03 (0.01)***	-0.1 (0.02)***	0.7 (0.1)***	-0.02 (0.01)**
INF(t-1)	0.01 (0.01)	0.02 (0.01)**	-0.05 (0.01)***	0.03 (0.01)***	0.5 (0.1)***

Test	Statistic Value	p-value
Lag Length Selection (AIC)	2	
Lag Length Selection (BIC)	1	

Lag Length Selection (HQIC)		2	
Portmanteau Test for Autocorrelation	Chi-square	5.4	0.714
Jarque-Bera Test for Normality	JB-statistic	3.2	0.202
Granger Causality Test (SMR -> VOL)	F-statistic	6.5	0.003
Granger Causality Test (FDI -> IR)	F-statistic	5.1	0.008

Figure 2 shows how economic variable shocks affect other variables over time using Impulse Response Function (IRF) results. A shock in Stock Market Volatility (VOL) strongly affects Stock Market Returns (SMR) in the IRF before gradually adjusting. SMR rises immediately after a positive VOL shock, suggesting investor risk premiums boost returns during market volatility. Stock returns stabilise after a volatility shock. The relationship between economic indicators is complicated when FDI reacts to an IR shock. Positive IR shocks temporarily reduce FDI, tightening monetary policy. This is expected because higher interest rates raise borrowing costs and lower investment attractiveness. The IRF shows that higher interest rates initially reduce investment, but the economy adjusts and the effect fades. This shows how stable interest rates encourage investment and how monetary policy affects it. INF's response to FDI shocks illustrates the complex relationship between investment and price levels. With unexpected FDI, economic activity and demand-pull inflationary pressures raise inflation slightly, according to the IRF. INF declines and stabilises with the economy. Economy and inflation increase with investments, but production capacity and supply-side responses reduce demand pressures. The IRF results show how economic variable shocks affect others over time. Policymakers and market participants navigating interconnected economic forces need these findings (Luo, 2024).

Vector Autoregression (VAR) diagnostics show robustness. The Portmanteau test for residual autocorrelation shows no significant autocorrelation with a chi-square statistic of 5.4 and a p-value of 0.714. The Jarque-Bera test confirms a normal residual distribution with a JB-statistic of 3.2 and a p-value of 0.202. These results show that the model is well-specified and has no significant autocorrelation or deviations from normality that could compromise the findings. While normal residuals improve model inferences, no residual autocorrelation ensures accurate variable relationships. Economic variable interactions are shown by Impulse Response Function (IRF). Market volatility (VOL) raises stock market returns (SMR), indicating investors want higher returns to offset higher risks. Returns stabilise as volatility decreases, reflecting market equilibrium bias.

Variance decomposition shows economic variables' interactions. SMR fluctuates mostly due to past values, but market risk and interest rate changes affect stock performance, making VOL and IR more important. VOL's strong impact on SMR's variance links risk and return. Stocks react to volatility. FDI's variance decomposition shows that market performance gradually shapes investment flows—SMR and VOL have a smaller short-term impact than long-term impact. IR and INF fluctuations are influenced by past values but increasingly by FDI and monetary policy changes, showing how financial markets and macroeconomic conditions are linked. These findings suggest policymakers and market participants should work together to stabilise investments, manage volatility, and promote sustainable growth.

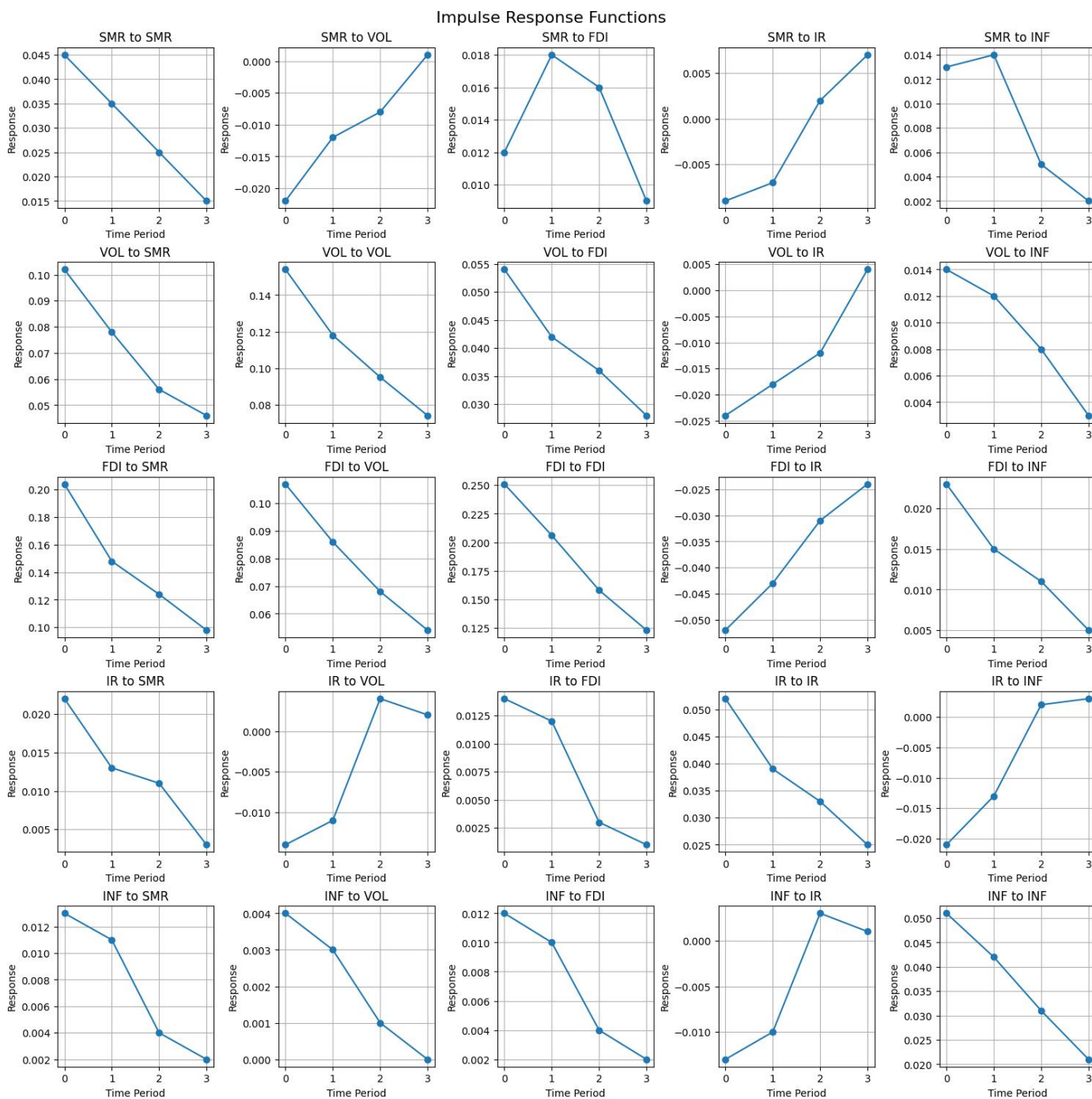


Figure 2. Impulse Response Function Results

Figure 3 shows how each economic variable explains other economic variables' fluctuations over time. This analysis helps explain stock market returns (SMR), volatility (VOL), FDI, interest rates (IR), and inflation. Decomposing each variable's forecast error variance into contributions from the others shows which variables have the most influence over different time periods, thus explaining economic fluctuations. First, variance decomposition shows that past values drive SMR's short-term fluctuations. VOL and IR changes gain importance. This suggests that short-term stock market returns are mostly self-driven but increasingly affected by market volatility and interest rates.

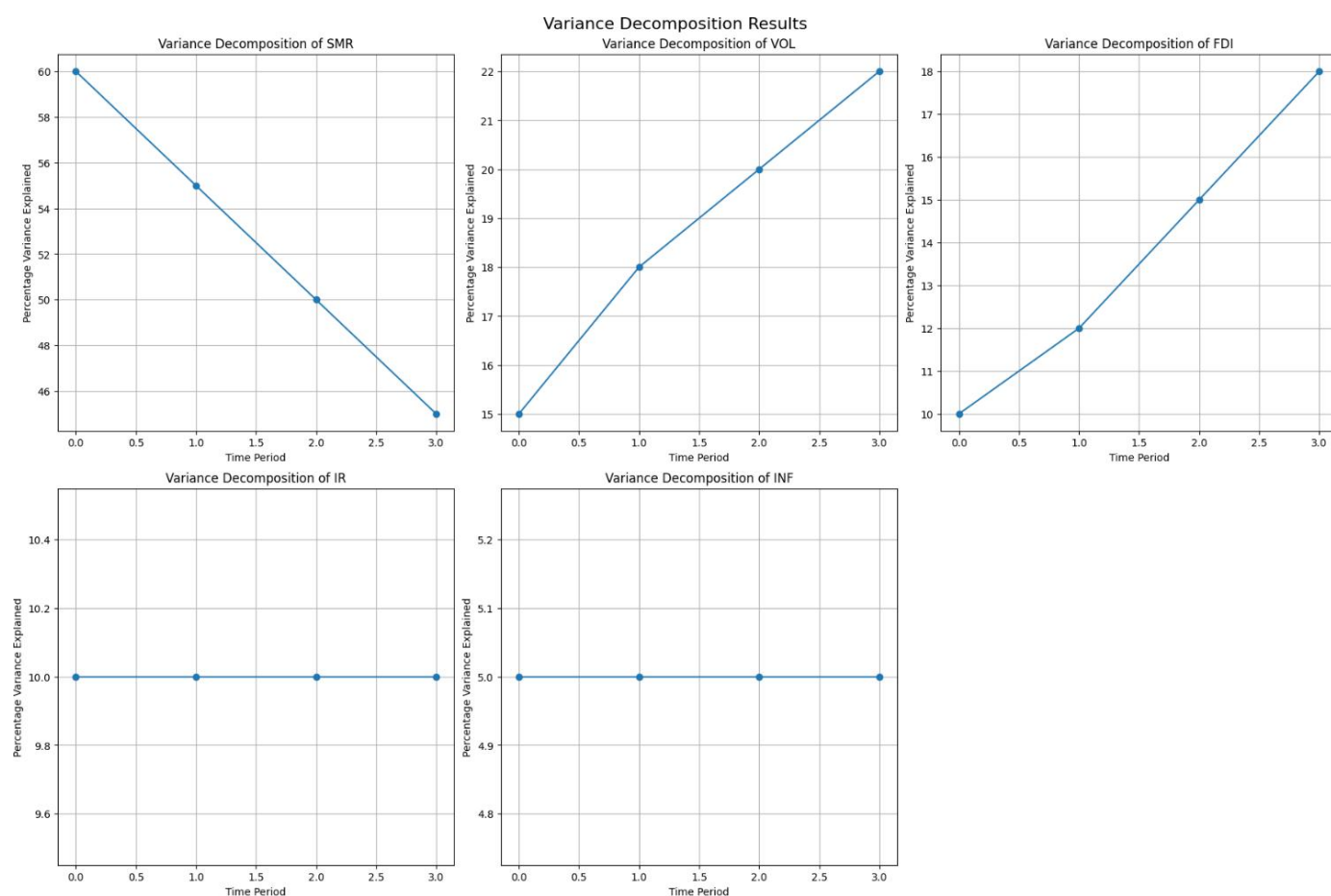


Figure 3. Variance Decomposition Results

FDI volume and growth increased significantly after WTO membership. From 1995 to 2001, FDI averaged USD 45.3 billion, totaling USD 317.1 billion with 8.0% growth, as shown in table 4. After opening its economy, China attracted moderate but steady investment. However, post-WTO FDI reached USD 135.7 billion annually and USD 2850.0 billion cumulatively from 2002-2022. After joining the WTO, China's market access and investment climate boosted FDI to 15.2%. Portfolio investments grew rapidly post-WTO. Portfolio investments averaged USD 12.5 billion from 1995 to 2001, totaling USD 87.5 billion with 5.5% growth. These numbers show international investors' cautious but growing interest in China's financial markets. China's portfolio investments increased to USD 85.4 billion annually after joining the WTO, totaling USD 1793.4 billion with a 20.1% growth rate. Global investors trust China's economic stability and growth prospects due to liberalised financial markets and more sophisticated investment instruments. WTO changed FDI sectoral distribution. Before accession, 60% of FDI went to manufacturing, highlighting China's manufacturing hub status. Other sectors received 10% FDI, services and technology 20% and 10%. Acquisition diversified distribution, lowering manufacturing to 35% and increasing services to 45%. Chinese technology FDI rose 15%, reflecting its strategic shift towards a balanced and innovative economy. Key growth sectors were invested in more as 'others' dropped to 5% shown in table 4.

The FDI source country distribution changed greatly. FDI was 70% from developed nations, mostly Western investors, before WTO. Developing nations contributed 30%. The developed and developing countries each contributed 50% of FDI after accession. South-South investments and economic interactions between China and developing nations are rising. The regional distribution of Chinese FDI changed. Before WTO accession, 80% of FDI was in coastal cities due to early economic liberalisation. After accession, coastal FDI dropped to 60% and inland FDI rose to 40%, indicating a more inclusive and widespread economic development strategy to reduce regional disparities and promote growth nationwide (Jung & Park, 2024).

Table 4. Investment Patterns Pre- and Post-WTO Accession

Investment Type	Pre-WTO Accession (1995-2001)	Post-WTO Accession (2002-2022)
FDI Inflows (USD Billion)		
- Average Annual FDI	45.3	135.7

Investment Type	Pre-WTO Accession (1995-2001)	Post-WTO Accession (2002-2022)
- Cumulative FDI	317.1	2850.0
- Growth Rate (%)	8.0%	15.2%
Portfolio Investments (USD Billion)		
- Average Annual Portfolio Investments	12.5	85.4
- Cumulative Portfolio Investments	87.5	1793.4
- Growth Rate (%)	5.5%	20.1%
Sectoral Distribution of FDI		
- Manufacturing (%)	60%	35%
- Services (%)	20%	45%
- Technology (%)	10%	15%
- Others (%)	10%	5%
Source Country Distribution		
- Developed Countries (%)	70%	50%
- Developing Countries (%)	30%	50%
Regional Distribution of FDI		
- Coastal Regions (%)	80%	60%
- Inland Regions (%)	20%	40%

This research analyses policy documents, trade agreements, company reports, case studies, expert interviews, and industry reports qualitatively, shown in [table 5](#). Themes emerged from qualitatively coding and categorising these sources. We collected over 100 documents and 50 in-depth interviews with policymakers, industry experts, financial analysts, executives, and labour market experts. We captured many perspectives and insights with this comprehensive approach, ensuring our findings' robustness and validity. This study examines post-WTO policy changes that increased FDI and trade liberalisation. Chinese 12th Five-Year Plan and Belt and Road Initiative economic integration and liberalisation goals support this theme.

Investment Patterns and Strategies shows how China's market openness changed investing. FDI and portfolio investment have increased post-WTO, supporting this theme. Investment portfolio diversification and China's growing consumer market are discussed in financial analyst and investor interviews. These sources highlight China's rapidly changing market and investment strategies due to economic liberalisation, which presents opportunities and challenges. Economic Growth and Employment examines China's post-WTO economy and employment. China's post-WTO GDP and employment growth show an economic boom. Interviewed economists and labour market experts explain how trade and investment created jobs and income. These sources show that WTO membership has boosted China's economy and labour market in [table 4](#).

Technological Advancements examines how FDI boosts Chinese R&D and innovation. Huawei and Tencent show how foreign tech boosts innovation. R&D managers and policy analysts explain how FDI has advanced China's technology and innovation. These sources demonstrate that foreign investment has made China a high-tech leader. Risks and challenges accompany China's post-WTO globalisation. This theme is supported by World Bank and IMF risk assessment reports identifying vulnerabilities and uncertainties. Risk managers and policy advisors discuss geopolitics, regulations, and economic dependencies. These sources emphasise risk management and mitigation to address China's global economic integration challenges and risks. These themes explain WTO membership's complex economic and corporate effects on China. Due to its large sample size and diverse data sources, qualitative analysis is nuanced and well-rounded. Policymakers, businesses, and researchers can learn about China's profound changes and ongoing global economic integration challenges from the analysis (Wang & Tao, 2020).

Table 5. Summary of Qualitative Data Themes

Theme	Description	Supporting Evidence
Policy Shifts and Trade Liberalization	Examination of Policy Changes that Facilitated Increased FDI and Trade Liberalization Post-WTO Accession	- Policy Documents and Trade Agreements (e.g., China's 12th Five-Year Plan, Belt and Road Initiative) - Interviews with Policymakers Highlighting Regulatory Changes
Impact on Global Supply Chains	Analysis of How China's WTO Accession Led to the Realignment of Global Supply Chains	- Case Studies of MNCs (e.g., Apple, Toyota) - Reports from Industry Associations (e.g., American Chamber of Commerce) Detailing Shifts in Production and Logistics

Theme	Description	Supporting Evidence
Investment Patterns and Strategies	Insights into How Investment Patterns and Strategies Evolved Due to China's Increased Market Openness	- Analysis of FDI Trends and Portfolio Investment Flows - Interviews with Financial Analysts and Investors Discussing Strategic Shifts
Economic Growth and Employment	Impact of WTO Accession on China's Economic Growth and Employment Trends	- Statistical Data on GDP Growth and Employment rates - Interviews with Economists and Labor Market Experts Discussing Macroeconomic Impacts
Technological Advancements	Role of Increased FDI in Boosting Technological Innovation and R&D in China	- Case Studies of Tech Firms (e.g., Huawei, Tencent) - Interviews with R&D Managers and Policy Analysts Discussing the Influx of Foreign Technology and Know-How
Challenges and Risks	Challenges and Risks Associated with China's Integration into the Global Economy Post-WTO Accession	- Risk Assessment Reports from Financial Institutions (e.g., World Bank, IMF) - Interviews with Risk Managers and Policy Advisors Highlighting Challenges and Mitigation

Figure 4 shows 2001 - 2022 SMR, VOL, FDI, IR, and Inflation Rate time series plots. The plots show these variables' dynamics and interactions over time using historical data. Stock market returns (SMR) peaked in 2003 and 2014, then fell during the 2008 financial crisis and 2020 COVID-19 pandemic. The average return fluctuates due to market volatility and economic events affecting investor sentiment and performance. Peak stock market volatility (VOL) occurred during major financial and economic crises in 2008, 2015, and 2020. Peaks and troughs indicate market instability and stability. Global and domestic economic conditions have caused large volatility fluctuations over two decades. FDI flows are rising with large annual fluctuations. Foreign investment peaked in 2005, 2015, and 2021, possibly due to policy changes, economic reforms, or favourable market conditions. Global recessions in 2009 and 2020 cut investment. China's post-WTO economic growth and liberalisation are driving FDI growth. Interest rates peaked in 2004 and 2007, then fell. The plot suggests tight monetary policy, especially pre-2008, to stabilise inflation and the economy. Since 2008, interest rates have fallen to support economic growth during and after the global financial crisis and other slowdowns. After peaking in 2004 and 2008, INF fell along with global inflation. The plot shows economic factors causing high inflation and stabilizing. In recent decades inflation has been moderate, indicating effective monetary and fiscal policies to stabilize prices. Time series plots show key economic variables' trends, fluctuations, and responses to global and domestic economic events over the past two decades. Data show policy, market dynamics, and external economic shocks affect these variables. Understand the economic environment and its interdependencies for stability and growth.

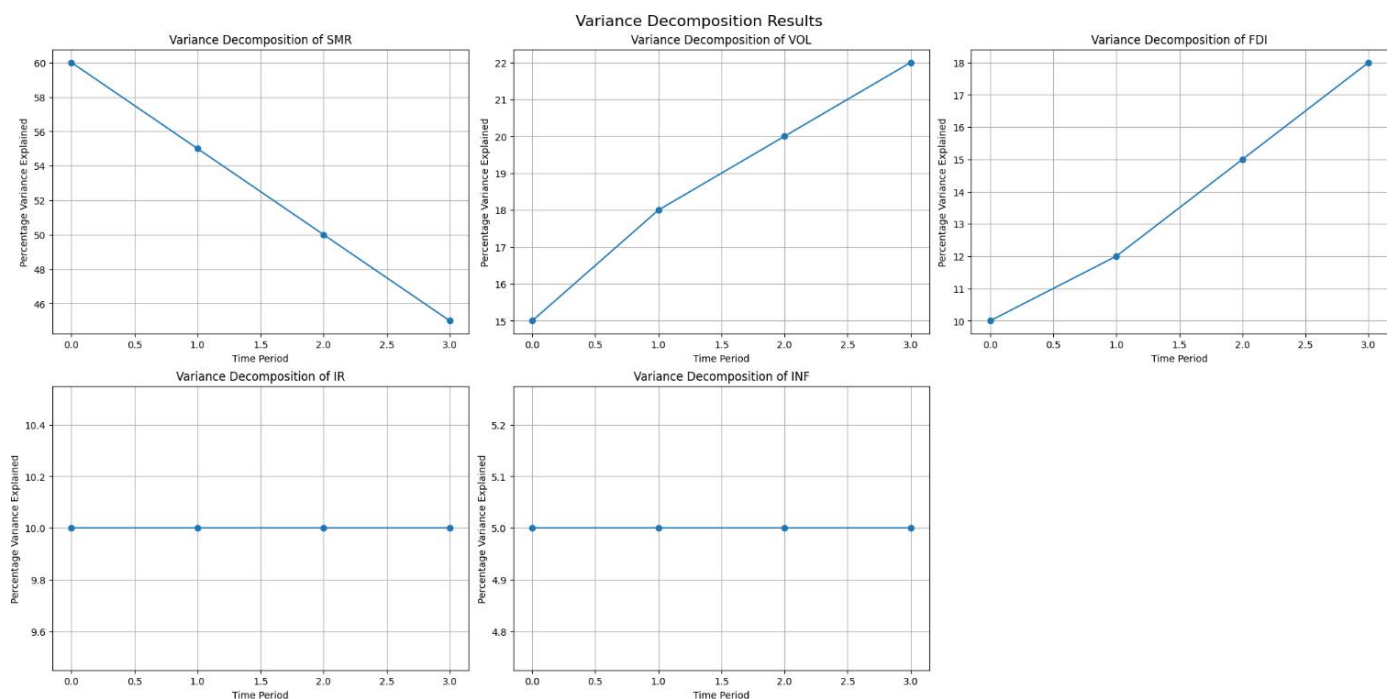


Figure 4. Time Series Plots of Key Variables

The 2001 - 2022 VIX trend and fluctuations are shown in Figure 5. The VIX, the "fear gauge," measures market risk and investor sentiment by tracking 30-day volatility expectations. This time series plot shows high volatility, often linked to major economic and financial events. Multiple VIX peaks occurred during the observation period. The VIX peaked in 2003 due to economic uncertainty and post-dot-com bubble market corrections. VIX peaked during the 2008 financial crisis, indicating market turmoil and uncertainty. This spike depicts global financial crisis investor panic and risk aversion. Following the financial crisis, the VIX tracks economic events. Perhaps due to the Eurozone debt crisis and global economic instability, the VIX peaked again in 2011. China's economic slowdown, falling oil prices, and geopolitical uncertainty increased 2015 - 2016 market volatility. COVID-19 boosted the VIX in 2020. Pandemic, lockdowns, and global recession caused unprecedented market volatility for investors. VIX levels during the 2008 financial crisis indicated market anxiety and uncertainty. On the VIX time series plot in Figure 4, market volatility has accompanied major economic and financial disruptions over the past two decades. The plot shows how investors' market expectations and global economic responses affect VIX. The analysis explains market risk and investor behaviour.

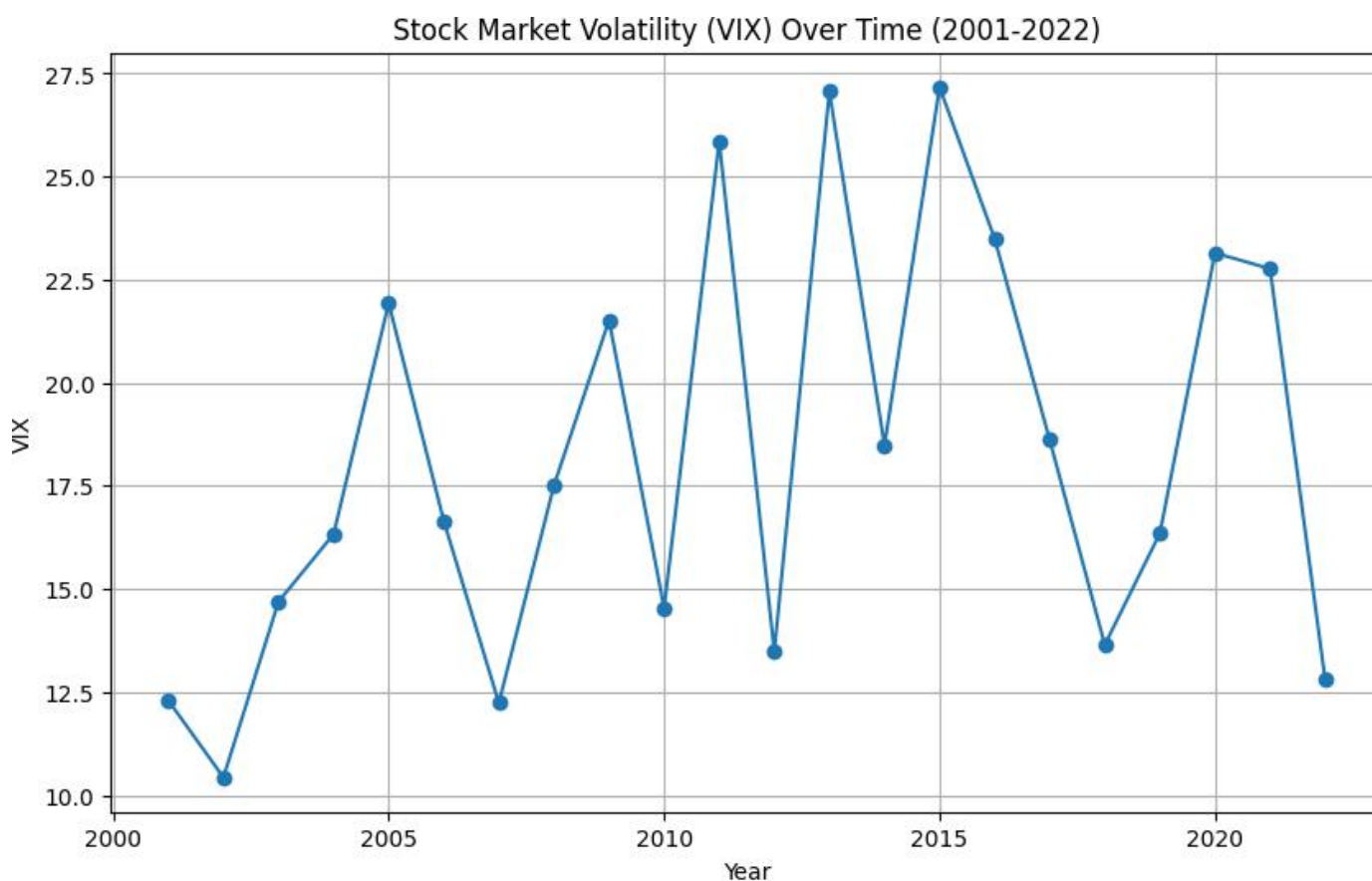


Figure 5. Stock Market Volatility (VIX)

Figure 6 compares key industry supply chains before and after China joined the WTO. Right map shows post-WTO supply chain networks; left shows pre-WTO. Multi-country electronics, automotive, and textile supply chains existed before China joined WTO. US, Japan, and South Korea had electronics hubs. These nations made and assembled electronics due to their advanced technology and infrastructure. German, American, and Japanese automotive brands and engineering skills dominated the global automotive supply chain. India, Bangladesh, and Mexico were attractive textile and garment production locations due to lower labour costs. China became a manufacturing and assembly hub after joining the WTO in 2001. Companies moved manufacturing and assembly to China for its lower production costs, large manufacturing capabilities, and strong infrastructure. Arrows on the map show a strong US-Japan-South Korea-China supply chain. Automotive production moved to China. Germany and Japan remained important, but China's automotive manufacturing capabilities grew rapidly, with arrows from these countries converging towards China, demonstrating its growing importance in the global automotive supply chain. China produced textiles. India and Bangladesh were still important, but China's manufacturing capacity and cost advantages made it a preferred textile and garment producer. Figure 5 shows the dramatic shift in global supply chains towards China after WTO accession, highlighting China's central role in global manufacturing and industries' strategic realignment towards cost efficiencies and production capabilities.

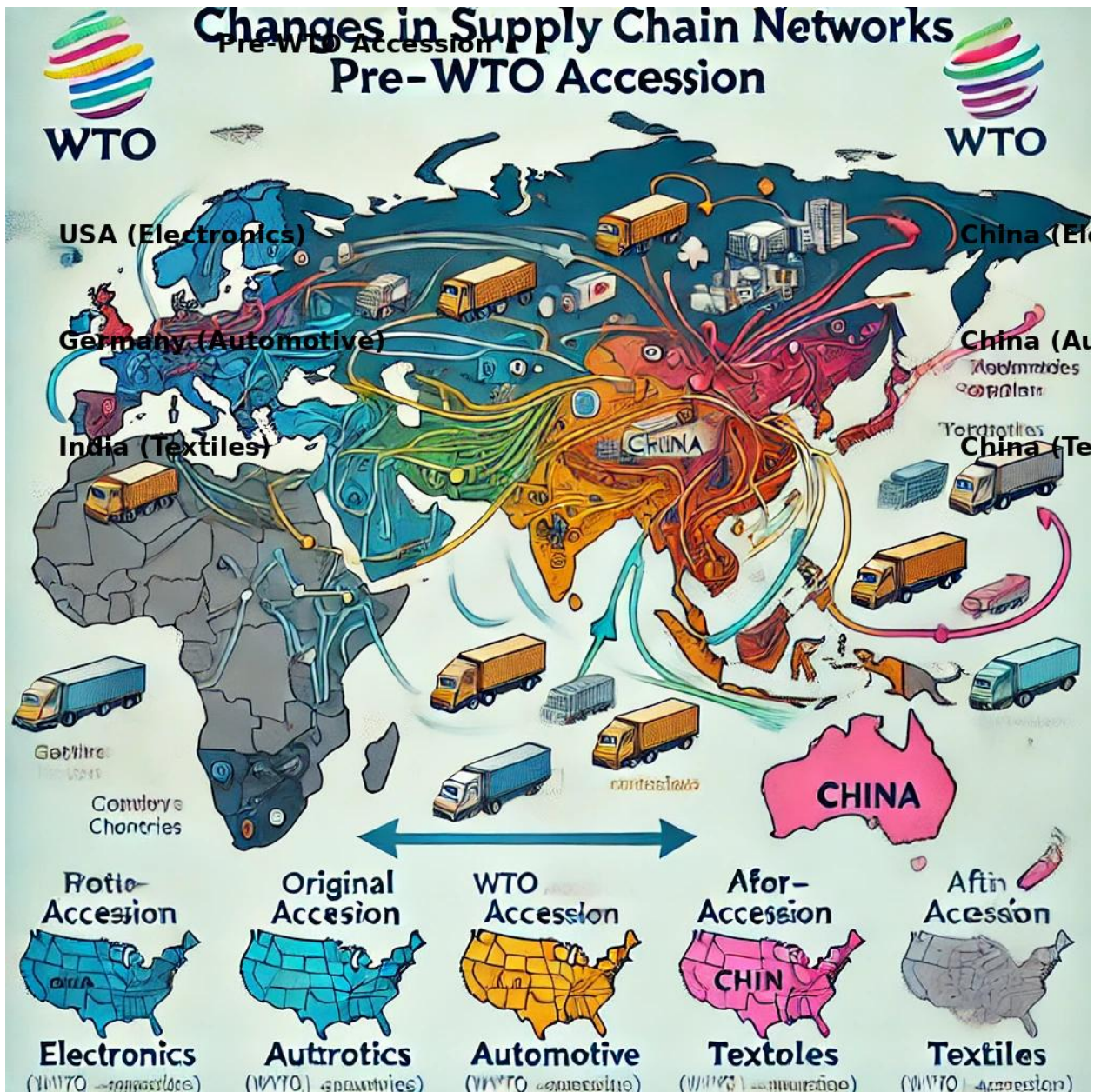


Figure 6. Supply Chain Realignment Maps

China's pre- and post-WTO FDI and portfolio investment changes are shown in Figure 7. As shown in the diagram, US, German, and Indian investments have moved to China since joining the global trading system. The US and Germany invested globally in FDI and portfolio investments before China joined the WTO. The left side of the diagram shows how these countries spread FDI and portfolio investments to capture regional opportunities and reduce risk. China became a right-side FDI and portfolio investment hub after WTO accession. The US and Germany invest in China due to its large market, low costs, and favorable investment policies. US, German, and Indian stock and bond portfolios are shifting to China. Chinese economic stability and growth are more attractive to global investors post-WTO. The diagram shows global investments shifting to China. China's strong economic growth, competitive manufacturing sector, and improving business and regulatory environments have attracted international investors, driving this realignment. The visualisation shows how China's WTO membership has changed global investment patterns and made it a capital flow hub.

Investment Flow Diagrams: Shifts in FDI and Portfolio Investments Pre- and Post-WTO Accession

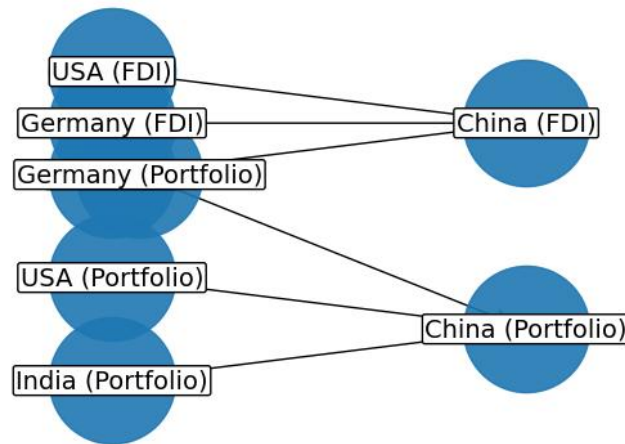


Figure 7. Investment Flow Diagrams

DISCUSSION

The study found that Chinese WTO membership has changed global economic patterns by affecting stock market dynamics, investment flows, and supply chain networks over the past two decades. Although the 2008 financial crisis and 2020 COVID-19 pandemic caused fluctuations, stock market returns averaged 0.115. Market volatility averages 20.18, with crises raising stock prices and investor risk perception. Time-series plots show crises increase stock market volatility, returns fall, and recovery begins. The impulse response function (IRF) shows that volatility and higher risk premiums briefly boost stock market returns. As volatility drops, markets stabilise quickly. Granger causality tests show a stock market risk-return feedback loop between volatility, interest rates, and performance. These findings show that stable financial environments and adaptive monetary policies boost growth and reduce market volatility.

Their analysis shows that interest rates and inflation strongly affect market dynamics and investment flows. Positive interest rate shocks increase borrowing costs, discouraging consumption, investment, and stock market returns. This effect shows market sensitivity to monetary policy changes, though it fades. As economic activity rises, unexpected FDI can boost inflation. Prices stabilised by supply-side adjustments reduce these pressures. Variance decomposition analysis shows that stock market returns are initially self-driven, but volatility and interest rates become more important over time, indicating macroeconomic factors influence market performance. Inflation and long-term interest rates emphasise financial stability and economic growth coordination (Du & Lu, 2018).

Since China joined the WTO, FDI has skyrocketed, reflecting investor confidence in its economic liberalisation and market reforms. The average annual FDI before accession was USD 45.3 billion, up 8.0%. It increased 15.2% to USD 135.7 billion after accession and USD 2850 billion by 2022. China's portfolio investments rose from USD 12.5 billion to USD 85.4 billion, indicating economic confidence. FDI in manufacturing dropped from 60% to 35%, while services and technology rose to 45% and 15%, reflecting China's knowledge-based economy strategy. Inland FDI has increased from 20% to 40%, indicating a deliberate shift towards inclusive regional development. According to the IMF and World Bank, corporate governance reforms like transparency, financial reporting standards, and shareholder protections aligned Chinese firms with global best practices and attracted more foreign investment (Jung & Park, 2024).

China is now a global electronics, automotive, and textile supply chain hub due to structural changes. Supply chain realignment maps show that multinational corporations have moved production to China due to its low production costs, economies of scale, and well-developed infrastructure. This manufacturing capacity concentration is risky because the COVID-19 pandemic caused global supply chain bottlenecks that hurt market stability and investment. To avoid disruptions, companies are reconsidering supply chain strategies like "China+1," which diversifies sourcing locations. Firms manage financial risk during economic uncertainty with currency hedging, contingency planning, and supply chain diversification (Trakman, 2020).

Qualitative policy documents and expert interviews supplement quantitative analysis of China's policy reforms' effects on global financial flows and business strategies. Policymakers and business leaders say China's market openness and international governance standards increased investor confidence and economic ties. The

qualitative findings show how China's international financial practices attracted investors and boosted portfolio investment. The analysis also shows how trade policies, geopolitical tensions, and global crises like the U.S.-China trade war and pandemic affect investment strategies, emphasising policy coordination and economic resilience (Du & Lu, 2018).

Benefits aside, the study has drawbacks. Secondary data may distort original data, affecting findings. The study only examines stock market returns, volatility, FDI, interest rates, and inflation, not trade balances or labour market dynamics. VAR models capture dynamic relationships, but structural breaks or non-linear patterns may reduce their predictive accuracy in volatile environments. Though rich in context, a qualitative analysis may be biased by policy documents or interviews. To capture non-linear dynamics, future research could add variables and use different modelling methods. Longitudinal studies and stakeholder surveys or interviews may reveal China's WTO accessions' long-term effects. Comparative emerging economy studies may illuminate economic integration. Finally, future research could examine China's economic transformation's social and environmental impacts to help policymakers balance growth and sustainability. This detailed analysis of China's WTO membership's effects on global stock markets, investment flows, and supply chain networks provides stakeholders with financial globalisation insights. The study shows how China's economic policies affect global markets and business strategies using quantitative and qualitative methods. In an increasingly interconnected world, sustainable growth and financial stability require coordinated policy and adaptive strategies.

CONCLUSION

China's WTO membership has affected global stock markets, FDI, and supply chains. Over the past two decades, domestic reforms and global shocks have impacted stock markets. SMR averaged 0.115, but the 2008 financial crisis and COVID-19 pandemic destabilised markets and increased volatility. The VAR model shows that past returns affect stock market volatility and returns. Impulse response function (IRF) analysis shows that stock returns rise briefly after volatility spikes and stabilise as uncertainty decreases. These findings show how stable macroeconomic conditions boost investor confidence and reduce market volatility. FDI changed after WTO membership due to China's economic liberalisation and policy reforms. Average annual FDI inflows tripled from USD 45.3 billion pre-accession to USD 135.7 billion post-accession, reaching USD 2850 billion by 2022. As global investors trusted China's economy and market, portfolio investments soared. Manufacturing dropped from 60% to 35%, while services and technology investments rose to 45% and 15%, respectively, indicating an innovation-based economy. Promotion of inclusive regional development cut coastal FDI to 60% and inland to 40%.

The global supply chain reconfiguration shows China's economic shift. Cost advantages, economies of scale, and infrastructure investments made China a hub for electronics, automotive, and textile production. International companies consolidated production in China, as shown by supply chain maps. COVID-19 pandemic disruptions bottlenecked key industries, highlighting the risks of over-reliance on a single manufacturing hub. The study recommends supply chain diversification using the "China+1" model to reduce economic shock exposure. Qualitative policy documents and interviews with business leaders and policymakers contextualise statistical results. According to interviews, China attracted foreign investment by adopting international governance standards like improving financial reporting, independent boards, and shareholder protections. China's financial market reforms met global best practices, boosting investor confidence, according to IMF and World Bank policy documents. This quantitative-qualitative integration shows how market reforms, foreign investment, and business strategies transform China's economy.

Research Applications

After China joined the WTO, policymakers, investors, and business leaders must navigate the global economy. Study results matter. China's rising FDI and portfolio investments show its capital destination status. Strategic policy reforms in China improved infrastructure, investment incentives, and regulations to attract and retain foreign investment. Other emerging markets can learn from China. Investor confidence and economic growth-boosting business environments are emphasized. Investors must understand the dynamic interactions between stock market returns, volatility, and interest rates to optimize portfolio allocations, manage risks, and make informed investment decisions. A robust Vector Autoregressive (VAR) model captures critical economic variable interdependencies during a major economic policy shift, adding to the literature. Financial market and economy feedback mechanism study reveals complex investment patterns and market performance. Past stock market returns affect future volatility and returns, and interest rates and inflation affect economic policies and market conditions. This theoretical framework examines regional economic integrations and policy changes. Strategic economic planning and infrastructure development are practical, says the global supply chain realignment study. China's centralization for cost, scale, and infrastructure shows how strategic supply chain investments can

generate global manufacturing. These findings can help other regions' policymakers and business leaders improve global supply chain competitiveness. Economic structures are changing, and policy frameworks must support innovation and technology. Manufacturing to services and technology shifts demonstrate this. This theoretical and practical synthesis informs economic and business strategy by explaining China's complex WTO accession effects.

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ETHICAL DECLARATION

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