CHINA'S OUTWARD FDI: A STUDY OF PUSH AND PULL FACTORS IN SELECTED ASIAN COUNTRIES

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Abstract

This study is an attempt to identify China's outward FDI. The factors have been separated into push and pull factors. The pull factors are studied through panel OLS, while the co-integration method and ECM are used to identify the push factors. Internalization Theory is the main conceptual framework. This result shows Asian exports of fundamental products and GDP per person employed are positively associated the OFDI. However, regulatory quality is negative. For the push factors, China's foreign reserves, exchange rate, patents and wage are found to positively impact outward FDI. Nonetheless, China's export and saving rate are negatively associated with China's OFDI. Then the ECM shows that China's exchange rate has negatively associated with China's OFDI at 15% significance. When Chinese's policies supported its OFDI since 2000, its OFDI increased rapidly.

Keywords: China's Outward FDI, Pull Factors, Push Factors

Introduction

This paper investigates the determinants of FDI by separated into pull and push factors investment. The study focuses on location choices of Chinese multinational firms to 24 Asian countries. The China's outward foreign direct investment is growing very fast from 2003. There are 13500 domestic investors set up 18000 foreign direct investment enterprises, spreading across 177 countries and region. China's foreign direct investment in the world was just 4.4% capital outward flows and 2% capital stock in 2010. It is number 5 and number 8 in the world. The flows has more new characteristic, such as it is increasing very fast. (Statistical bulletin of china's outward foreign direct investment 2011) Merging enterprises become increasingly concentrated in the developing countries. It distributes widely and majorities of OFDI are in service industry, financial industry, mining, wholesale and retail trade, manufacturing, transportation. About 70% of capital out flow from China is in Asian countries. In non-financial foreign direct investment flows, the state-owned enterprises accounted for only 55.1%. Private enterprises are encouraged to participate increasingly "go global". (Statistical bulletin of china's outward foreign direct investment 2010)

There are reasons for increasing China's outward FDI, such as resource-seeking, market-seeking, technology-seeking and diversification-seeking, strategy-seeking investment. Moreover, The Association of Southeast Asian Nations, or ASEAN, was established on 8 August 1967 in Bangkok. The model of economy in China and ASEAN is similar; it is the export-oriented economic and process-oriented economic model. (Randall 2008) There are many other reasons for the continuous high growth China's outward FDI in these years. One reason is high savings rate, China's savings rate is the highest in the world, up to 51% in 2012. Export-oriented firms use the low labor cost to get cheaper good price and it makes Chinese exports and imports are imbalance. (Ministry of Commerce of the People's Republic of China 2011) With China's trade surplus, China stores enormous foreign reserve. (State Administration of Foreign Exchange 2011) With China's exchange rate appreciating, China's

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companies have good opportunities to explore their business all over the world. Finally, the government policy encourages Chinese enterprises to "going abroad".

Objectives and Scope
Objective
1. To find the pull factors of China's outward FDI to the Asian selected countries.
2. To find the push factors of China's outward FDI to the Asian selected countries
3. To survey policies that the Chinese government uses to support China's outward FDI.

Scope
The data come from World Bank Development Indicators and CEIC. The first model started from 2003 to 2011 in yearly, the second model started from 1985 to 2011 in yearly. There countries are Bangladesh, Cambodia, Hong Kong, India, Indonesia, Japan, Kazakhstan, Korea, Kyrgyz Republic, Lao PDR, Malaysia, Mongolia, Pakistan, Philippines, Qatar, Saudi Arabia, Singapore, Tajikistan, Thailand, The United Arab Emirates, Turkey, Uzbekistan, Vietnam, and Yemen.

Methodology

We would like to use the panel model to find the pull factors of China's outward FDI to selected Asian countries. Then we also would like to find the push factors of China's outward FDI to selected Asian countries. In order to identify the push factor, we use panel data and OLS test, because we just have 9 years and yearly data. On the other hand, the push factors will be identified by co-integration and ECM model. We divide it in the long run and short run. In the long run we use the co-integration test and in the short run we use the error correction model. After that we find out China's outward foreign direct investment policy, we list them to get the whole picture the progress of the China's outward foreign direct investment.

The pull factors of China's outward FDI to selected Asian countries
To estimate the model we use panel data to find the determinants of China's outward FDI to different countries and make regression by using ordinary least squares (OLS).

$$OFDI_{i,t} = \alpha + \beta_1 GDP_{i,t} + \beta_2 GGDP_{i,t} + \beta3 IN_{i,t} + \beta_4 TRA_{i,t} + \beta_5 IFDI_{i,t} + \beta_6 OM_{i,t} + \beta_7 GDPPE_{i,t} + \beta_8 PS_{i,t} + \beta_9 GE_{i,t} + \beta_{10} RQ_{i,t} + \beta_{11} RL_{i,t} + \beta_{12} CC_{i,t} + \varepsilon_{i,t}$$

Where			
	i	=	1,2,3…N
	t	=	1,2,3…T
	OFDI	=	Outward Foreign Direct Investment form China to Asian countries
	GDP	=	Asian countries' GDP
	GGDP	=	Growth rate of Asian GDP
	CPI	=	Inflation of Asian countries
	TRA	=	Merchandise trade (% of GDP)
	IFDI	=	Foreign direct investment, net inflows (% of GDP)
	OM	=	Asian countries' fuel, ores and metals exports as share of GDP
	GDPPE	=	GDP per person employed (constant 1990 PPP $)
	PS	=	Political Stability and Absence of Violence
	GE	=	Government Effectiveness
	RQ	=	Regulatory Quality
	RL	=	Rule of Law
	CC	=	Control of Corruption

The push factor of China's outward FDI to selected countries

Second, we use the unit root tests and Dickey-Fuller test to examine whether FDI and its determinants are non-stationary. Then we use the co-integration test to whether there is long run relation exists between the FDI and its determinants. If there is a long-run equilibrium between FDI and its determinants, the static regression equations can be estimated by OLS following.

$$\text{Log (OFDI}_t) = \alpha + \beta_1\log GDP_t + \beta_2\log EX_t + \beta_3\log SR_t + \beta_4\log FR_t + \beta_5\log EXC_t + \beta_6\log PA_t + \beta_7\log WAGE_t + \varepsilon_{i,t}$$

$$t = 1,2,3\ldots T$$

$$\varepsilon_t = \log FDI_t - \alpha - \beta_1\log GDP_t - \beta_2\log EX_t - \beta_3\log SR_t - \beta_4\log FR_t - \beta_5\log EXC_t - \beta_6\log PA_t - \beta_7\log WAGE_t$$

GDP	=	China's Gross Domestic Product
EX	=	Export from China to Asian countries
SR	=	China's saving rate
FR	=	China's foreign reserves
EXC	=	China's RMB to US dollar exchange rates
PA	=	China's patent numbers
WAGE	=	China's average wage yearly

Then, if the explanatory variables and explained variable has co-integration relationship, we use error-correction model (ECM) to estimate in order to capture the short-run effects of the determinants on FDI from China.

$$\Delta\log OFDI_t = \alpha + \beta_1\Delta\log GDP_t + \beta_2\Delta\log EX_t + \beta_3\Delta\log SR_t + \beta_4\Delta\log FR_t + \beta_5\Delta\log EXC_t + \beta_6\Delta\log PA_t + \beta_7\Delta\log WAGE_t + \beta8\varepsilon_{t-1} + u_t$$

$$\text{Where } \varepsilon_{t-1} = \log FDI_{t-1} - \alpha - \beta_1\log GDP_{t-1} - \beta_2\log EX_{t-1} - \beta_3\log SR_{t-1} - \beta_4\log FR_{t-1} - \beta_5\log EXC_{t-1} - \beta_6\log PA_{t-1} - \beta_7\log WAGE_{t-1}$$

Results and Discussion

The pull factors results of China's outward foreign direct investment

To find the pull factors of China's outward FDI to the Asian selected countries. Because we find the channel of China's OFDI went through Hong Kong sector if reach the target. China's outward foreign direct investment flow into the Hong Kong, we can calculate rates of Hong Kong OFDI to Asian countries. The most destinations of Hong Kong OFDI are Japan, Singapore, Malaysia, and Thailand. If we drop Hong Kong, the result is not significant and not comprehensive. So we add Hong Kong, this makes the result of OLS significant. In the second test, we add the Hong Kong, and add the China's OFDI to other Asian countries through Hong Kong. We use the different coefficient have the same slopes, we can the result (Table 1).

Table 1 The Eview results of fixed effects panel data about the pull factors

Variable	Coefficient	Std. Error	T-Statistic	Prob.	Fixed Effects (Cross)	Coe.
C	-654603.30*	485722.60	-1.3476	0.1798	BANGLADESH--C	631610.3
GDP	-7.40E-07**	3.94E-0	-1.8771	0.0625	CAMBODIA--C	452644.4
CPI	-3461.69	3811.01	0.9083	0.3652	HONGKONG--C	-1139846.0
TRA	3283.76**	1817.32	1.8069	0.0728	INDIA--C	628951.8
IFDI	14822.09	9209.284	1.6094	0.1096	INDONESIA--C	-452646.9
OM	145556.60*	22669.78	6.4207	0.0000	JAPAN--C	2567898.0
GDPPE	49.99*	4.64	3.4151	0.0008	KAZAKHSTAN--C	-1931998.0
PS	8.56	-216252.1	0.0019	0.9984	KOREA--C	-216252.1

Table 1 (Con.)

Variable	Coefficient	Std. Error	T-Statistic	Prob.	Fixed Effects (Cross)	Coe.
GE	405.55	7230.90	0.0561	0.9553	KYRGYZREPUBLIC--C	238501.3
RQ	-14342.72*	6539.77	-2.1931	0.0298	MALAYSIA--C	-296413.1
RL	-2208.07	7393.76	-0.2986	0.7656	PAKISTAN--C	522261.4
CC	2827.37	6083.07	0.4647	0.6428	PHILIPPINES--C	239393.8
					QATAR--C	309669.7
R-squared	0.790732				SAUDIARABIA--C	98834.9
Adjusted R-squared	0.748598				SINGAPORE--C	-1788433.0
Log likelihood	-2495.891				THAILAND--C	237486.4
Obs.	180				UNITEDARABEMIRATES--C	118759.0
					TURKEY--C	-103931.7
					VIETNAM--C	232769.0
					YEMEN--C	127743.0

Notes: we choose the significance at the 5% and 10% level. *Indicates significance at 5% level. **Indicates significance at 10% level.

From the table 1, we use the fixed cross-section effects to get the regression. Asian countries' fuel, ores and metals exports share of GDP, GDP per person employed (constant 1990 PPP $), Regulatory quality are significant and correct signs without GDP per person employed. The host market size (GDP),The inflation (CPI), Merchandise trade (% of GDP) (TRA), Foreign direct investment, net inflows (% of GDP) (IFDI), Political Stability and Absence of Violence, Government Effectiveness, Rule of Law, Control of Corruption are not significant to China's outward foreign direct investment.

Now we discuss each of these findings in more detail. From the table 1, the host market size (GDP) is not significant with a sign contrary to expectation as predicted in the Hypothesis1. The host market size variable is retained to get the market-seeking motive (Hypothesis1). We find the inflation (CPI), Merchandise trade (% of GDP) (TRA), Foreign direct investment, net inflows (% of GDP) (IFDI) are all not significant. These findings do not support Hypothesis 2.3.4. Host market size (GDP) has negative influence on China's OFDI. That influence is negative and unimportant that let us surprise. In the hypothesis we consider that will be the positive and very important. From the result we conclude that the international multinationals just took some regions situation consideration. They just focus on the local markets a lot. It is shown that market seeking was unimportant motive for China's OFDI in the period (Hypothesis1). The Merchandise trade (% of GDP) (TRA) is not significant and positive. In the 10% significant, the supports the argument that when there is more merchandise trade in the host countries, the host market is more open and foreign companies were more familiar with the host markets and customers. The products and services adapted to the local needs (Hypothesis4). A major finding is that the coefficient on the index of inward FDI (IFDI) increasing relationship with China's OFDI (Hypothesis5). Although some Asian countries have some advantages in attracting foreign investment, the governments prohibit or discourage the foreign investment. Multinationals also cannot invest the fund to the attractive items. Other very important variable is Asian countries' fuel, ores and metals exports as share of GDP(OM), we get that a 1% increase in the Asian countries' fuel, ores and metals exports is associated with a increase in China's OFDI of 145556.6. State-owned enterprises seek the resources all over the world. Our finding about GDP per person employed (constant 1990 PPP $) is same to the hypothesis (Hypothesis5). At first, we design GDPPE represents the wage level of the host countries, and the low labor cost is the vital reason for the China's OFDI. However, now with the increase of host countries' wage level, consumption power will improve and product will sale quickly. From the table 1 OFDI

will go up to 49.99221 with GDP per person employed increasing 1%. Regulatory Quality does meet the Hypothesis 6, and it is significant and negative. China's OFDI go to the host countries with the low regulatory quality, they can use their soft power to convenient on the business. China's low law execution level and intense competition make the local companies create many methods to solve the problems. These abilities sometimes are advantages for them to go abroad. Of the main variables we examine, we find no evidence supports for the Hypothesis 3, the CPI variable in the regression is insignificant, which suggest that China's firms have not been motivated to care the host countries' CPI. Addition, Political Stability and Absence of Violence, Government Effectiveness, Rule of Law, Control of Corruption play unimportant role to the China's OFDI.

Now we discuss the results for our three control variables in mixture regression. The findings for Asian countries' fuel, ores and metals exports, GDP per person employed (constant 1990 PPP $), Regulatory Quality (RQ) are significant and correctly signed, supporting Hypothesis. Asian countries' GDP, the inflation of Asian countries, Merchandise trade, foreign direct investment net inflows, Political Stability and Absence of Violence, Government Effectiveness, Rule of Law, Control of Corruption are all insignificant, there are no support for Hypothesis. The two Asian countries' fuel, ores and metals exports and Regulatory Quality variables, when we viewed together, it supports the resource-seeking motive. Other variables about ores and metals exports and foreign direct investment net inflows, when we views together then we can find that the host countries policies are vital to the foreign direct investment. China's multinationals took it consideration a lot.

To find the push factors of China's outward FDI to the Asian selected countries.

Table 2 The results about ADF Unit Root Test

Available	ADF T-Statistic	Critical Values (0.05)	Result
OFDI	-2.33	-2.99	No stationary
D(FDI,2)	-18.37	-3.00	stationary
GDP	2.32	-2.99	no stationary
D(GDP,2)	-4.79	-2.99	stationary
EX	5.66	-2.98	no stationary
D(EX,2)	-8.24	-2.99	stationary
SR	12.89	-2.98	no stationary
D(SR,2)	-6.61	-2.99	stationary
FR	-1.45	-2.98	no stationary
D(FR,2)	-4.32	-2.99	stationary
EXC	-2.17	-2.98	no stationary
D(EXC,1)	-4.41	-2.99	stationary
PA	-1.67	-2.98	no stationary
D(PA,1)	-5.09	-2.98	Stationary

Notes: "D(x,1)" is the 1st Difference for Each Variable.

From table 2, 3 in the ADF Unit Root Test, China's GDP, China's exports to the Asian countries, China's saving rate, China's foreign reserves, China's exchange rate, the number of China's patents, China's wage are all non-stationary. When we take logarithm to the factors, the result is also non-stationary. Then we can use the co-integration to find in the long run relationship between China's outward FDI and their domestic factors.

Table 3 The results about ADF Unit Root Test after factors take Logarithm

Available	ADF t-Statistic	Critical values (0.05)	result
Log(OFDI)	-0.8246	-2.9810	No stationary
D(log(FDI),1)	-5.9422	-2.9862	stationary
Log(GDP)	0.9107	-2.9919	no stationary
D(log(GDP),1)	-2.6455	-2.6326	stationary
Log(EX)	0.7565	-2.6299	no stationary
D(log(EX),1)	-5.1099	-2.6326	stationary
Log(SR)	-2.0258	-2.6326	no stationary
D(log(SR),2)	-5.9151	-2.8819	stationary
Log(FR)	-0.6556	-2.6299	no stationary
D(log(FR),1)	-4.3200	-2.9900	stationary
Log(EXC)	-2.9199	-2.9810	no stationary
D(log(EXC),1)	-4.2203	-2.9862	stationary
Log(PA)	-6.9069	-6.9069	stationary
WAGE	-0.6488	-2.9918	no stationary
D(log(WAGE),1)	-3.4286	-2.9918	stationary

Notes: "D(x,1)" is the 1st Difference for Each Variable.

Table 4 The results about the co-integration test

Co-integrating Equation(s)	Log likelihood Coefficient	228.2222 Statistic
LOG(OFDI)	1.000000	
LOG(GDP)	11.1255	1.16580
LOG(EX)	-2.36720	0.2017
LOG(FR)	0.7642	0.1471
LOG(EXC)	-2.12799	0.3324
LOG(PA)	-0.3135	0.0479
LOG(WAGE)	8.4313	0.7518
C	99.9901	10.1218

Table 5 The results about test the ADF test to check the co-integration

Group unit root test: Summary
Series: LOG (OFDI), LOG (GDP), LOG (EX), LOG (FR), LOG (EXC), LOG (PA), LOG (WAGE)
Automatic lag length selection based on SIC: 0 to 3 and Bartlett kernel

	Statistic	Prob.	Obs.
Levin, Lin & Chu t	0.4678	0.6800*	177
Im, Pesaran and Shin W- tat	0.3155	0.6238	177
ADF - Fisher Chi-square	31.2451	0.0051	177
PP - Fisher Chi-square	26.4963	0.0224	182

Notes: Probabilities for Fisher tests are computed using an asymptotic Chi

From the table 5, we can find at 95% significance, there are 6 co-integration relationships in the regression. Then we test the unit root test. From the table 3, we find that ADF test is $0.0051 < 0.05$, we can conclude that the result is valid.

From the table 4, we can find that in the long run there is co-integration relationship between dependent and independents. This equation reveals that foreign reserve, wage level have positive relationship with outward foreign direct investment, while gross domestic product, export, exchange rate, and patents have negative relationship with the China's

outward foreign investment. Gross domestic product significantly determinant OFDI, but the sign is contrary to Hypothesis9. From the data about the whole China's outward foreign direct investment, state-owned firms are more inclined to seek natural resources. Private Chinese firms are market and technology seeking. On the other hand, these ten years more and more China's private firms go abroad, they would like to find the technology and management from developed countries. One reason may be because that with the growth of China's GDP increasing, China's OFDI in Asian countries declines. China's state-owned firms and private China's firms would like to exploit their big domestic market. GDP represents one country's comprehensive national strength, more strength transnational corporation need to invest outward to exploit market, resource, technology, labor and so on. Besides, the domestic enterprises would like to get more profits in the following years, when they go to the developed countries. The Hypothesis10 is contrary to the result; in the long run the export has negative relationship with the outward foreign direct investment. The theory about international trade reveals that there is substitution between FDI and export in the countries. So we can find China's OFDI follow the theory, since China is a developing country. Then the Hypothesis 12 accords with the regression, but the significant is very small, just about 0.764. China has the highest stock foreign reserve all over the world. But the effect on the OFDI is not very important. China's foreign reserve is the first place in the world. Majority of them are US bonds. Administration of Exchange Control manages these fund, they also invest them to different places and countries. Recently China surplus raises quickly, they get more and more fund. It is good idea that investing to domestic and aboard market. It is easy to understand that foreign reserve and China's outward foreign direct investment have the same direction to move in the long term. The exchange rate is negative with the China's outward direct investment. (Hypothesis 13) First we should reveal that China's government use fixed exchange rate. From 1985 to 2002, China's exchange rate was depreciates by government's policy. So we cannot conclude this relationship directly. Additional, we can explain the reason is China's government manages the foreign reserve, when companies export and get the dollar from foreign countries. When multinationals would like invest abroad, they use the dollar directly from China's government. Before 2008, China's government use compulsory exchange settlement and sales system. This system contributes greatly to the growth of foreign reserve. They do not exchange the RMB to dollar, especially China's state-owned firms. So when China's exchange rate appreciating, China's OFDI will go down. The patent (Hypothesis 14) does not meet the hypothesis, it is negative sign. The reason is not easy to conclude; the multinationals would not like divulge the key science and technology to other countries. The coefficient about the wage is positive and meets the Hypothesis 15. In the last ten, China's science and technology investment was second place in the world behind US. And the number of China's patents in the world becomes the first one all over the world. Although China is a developing country, it plays attention to the science and technology. The high technology translation enterprises grow fast in China. Compare with the some developing countries in Asian, China get some advantages in the science and technology field. Thus these patents have positive relationship with China's outward foreign direct investment in the long term. The labor cost the always the most consideration for the companies, with China's average wage increasing quickly, it is attracting to the China's multinationals to invest into the low labor cost countries.

Error Correction Model (ECM)

In this study, there is the long term relationship between the dependents and independent. Then we can analysis it in the short run, using the error correction model to test it.

Table 6 The result about Error Correction Model

Variable	Coefficient	Std. Error	T-Statistic	Prob.
C	-1.2021	1.8211	(-0.6601)	0.5180
DLOG(EX,1)	-1.9077	1.5041	(-1.2683)	0.2218
DLOG(FR,1)	0.3626	1.2468	(0.2908)	0.7747
DLOG(SR,2)	1.4816	2.3931	(0.6191)	0.5440
DLOG(EXC,1)	-4.7500	3.3059	(-0.6698)	0.5119
DLOG(PA)	0.8874	0.5948	(1.4919)	0.1541
DLOG(WAGE,1)	2.6006	4.8093	(0.5407)	0.5957
Ecm(-1)	-0.0249	0.0342	(-0.7287)	0.4761
R-squared	0.229387	Log likelihood	-26.45196	
Adjusted R-squared	-0.087924			

From Table 6, error correction term is negative, it accords with reverse correction mechanism. We get at 15% level significant that only the number of China's patents is significant, whereas others are not significant. Last we have the short term regression. We summarize the long term and short term relationship about the variables by using co-integration test and Error Correction Model.

Conclusion and Recommendation

Conclusion

In this paper, we study China's outward foreign direct investment from pull and push factors. In the push factor we separated it by long-run and short-run. The pull factor data is from 2003 to 2011. The push factor data is from 1985 to 2011. In the pull factor we use the panel data from 24 countries and we separate Hong Kong from the database. Since Hong Kong is special administrative region, from "Hong Kong SAR basic law", the Central People's Government has responsible for all foreign affairs. Hong Kong can be individually manage their foreign affair with other countries, regions and relevant international organizations to maintain, develop, conclude, and implement agreements in the economic, trade, finance, shipping, communications, tourism, culture, sports and other areas. First we treat Hong Kong as province of China, so we drop Hong Kong from destination of China's outward foreign direct investment. Then we get the result as you can see in (APPENDIX A, B, and C). If we drop Hong Kong, the result is not valid. We can find that R-square is just 23.84%.

In the second test, we add the Hong Kong, and added the China's OFDI to other Asian countries through Hong Kong.

Further we also separates from the model into section fix model and period model. In the section fix model we found that the Asian countries' fuel, ores and metals exports as share of GDP has the very big positive impact on the China's OFDI . The GDP per person employed (constant 1990 PPP $) has a positive impact on the China's OFDI which is different from the hypothesis. The Regulatory Quality has a negative relationship with China's OFDI. It means at the poorer regulatory quality, the more China's OFDI will go to the host countries.

On the other hand, we discussed the push factor about China's outward foreign investment. We used the co-integration to test the long-run relationship between China's OFDI and China important economic indicators. We get some results contrary to the hypothesis; the foreign reserves in China, China's exchange rate, the number of China's patents and China's average wage have positive relationship with the China's outward foreign

direct investment in the long run. China's saving rate and export from China to Asian countries have negative impact on the China's OFDI.

In the short-run model, we use the Error Correction Model (ECM), we got the under the 15% level of significant, only patent was significant and positive, whereas others were not significant.

Last but not the least, China's outward foreign direct investment policy plays the very important role to China's outward foreign direct investment. In the last 10 years, as the state-owned enterprises are major subjects of China's outward FDI, so the investment policy and state-owned enterprises cooperated very well. The China's investment policy has big influence to the China's outward foreign direct investment.

To sum up, the pull factor shows that China's outward foreign direct investment seeks rich resources and poor institutions. And they are not market-seeking foreign direct investment. They would like to supply for the domestic economic developing. The push factors shows that with China's enormous foreign reserve and average wage growing, China's outward foreign direct investment prefer to developed countries to get technology and high management to exploit the domestic big market. Actually, China's outward foreign direct investment serves the domestic market and domestic economic. No matter from resources and technology skill. This is finally goal.

Recommendations

For the China's savings, China's government will improve the society system to make the households have more confidence to consume. Further the corporations and household will invest abroad more with the government relaxing the regulations about the investment abroad. As the new generations growing, the new consumption habits will reform.

Exchange rate, foreign reserves and export to Asian countries have impact on each other. Nowadays, the government will reform the structure of China's economy. The export is not the key energy to China's economy. They begin to find other ways to stable the growth of China's economy. Then the foreign reserves will not increase so fast, it will make less pressure to China's currency and China's exchange rate. It is convenient for the exchange rate and interest rate reforms. Invest abroad have substitute effect on the China's export and consume some China's foreign reserves. Additionally, foreign reserves and export react to China's foreign direct investment. After China's interest rate and exchange rate reformed, China's foreign direct investment has more support from that.

China's patents and wage have their own reasons to developing, China's OFDI has positive relationship with them. We can forecast that China's technology and science develops very quickly, and the China's average wage increases fast, China's OFDI will get more support from that.

On the other hand, China's support policies are key reason for China's OFDI. Since China's government have more experience on investment abroad, corporations and multinationals will be encouraged by the government policies.

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