Abstract
We empirically investigate the factors that drive China's outward FDI using dynamic panel methods for 27 countries from 1995 to 2002. Based on the literature review we test three hypotheses: comparative advantages in low wage countries, vertical integration towards resource and human capital abundant countries, and the transaction-enforcing FDI to complement exports. Our results provide strong support for the transaction-enforcing motive: China's FDI follows exports. Next, only in the presence of exports, low income per capita is important arguably because low-income countries have a preference for Chinese low-cost exports. Finally, though this series we find no evidence of FDI to skill-abundant countries and no evidence that host market resources or governance matters