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Does the OFDI Promote Bilateral Political Relations?

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Article

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Abstract

This paper finds that there is an inverted U-shaped relationship between OFDI and bilateral political relations. Moderate investment relations can improve bilateral political relations. But too close investment relationship and excessive investment dependence will make the bilateral political relationship tend to be tense. When the dependence of investment exceeds 23.6%, bilateral political relations will shift from friendly to tense relations. The mechanism study finds that the host country's fear of over-reliance on investment and intensified competition is an important reason for the tight bilateral political relations caused by the close investment contacts. After the financial crisis in 2008, the inverted U-shaped relationship between OFDI and bilateral political relations became more apparent. Further research finds that the inverted U-shaped relationship between the OFDI and the bilateral political relationship only exists in countries not along the Belt and Road.

Keywords: OFDI, Investment Relations, Bilateral Political Relations, the Belt and Road Incentive

JEL codes: F10, F15, O17

I. Introduction

The issue of whether and how outward foreign direct investment(OFDI) enhances bilateral political relations among nation states has received considerable scholarly attention. With the rise of populism and the intensification of the anti-globalization wave, the development of foreign direct investment is facing many obstacles and challenges. In recent years, there have been an increasing number of cases of tense bilateral political relations caused by OFDI. Developed countries such as the United

[1] This article does not contain any studies with human participants performed by any of the authors.This article does not contain any studies with human participants performed by any of the authors

States have successively restricted foreign direct investment(FDI) on the grounds of national security. China's position in international direct investment has become increasingly prominent. Since the reform and opening up, China has gradually transformed from an destination country to an important origin country of cross-border investment. Developed countries increasingly regard China as their most important strategic competitor and therefore begin to implement various high-tech export restrictions against China, and begin to block and suppress China's overseas investment (Zhang, 2020). Europe, the United States, Japan and other countries have successively introduced policies and bills to increase the review of China's overseas mergers and acquisitions on the grounds of national security. For example, on August 13, 2018, the United States passed the Foreign Investment Risk Review Modernization Act. In March 2019, the EU passed the EU Foreign Investment Review Framework Act and so on.

The impact of OFDI on bilateral political relations has the “peace effect” and may also have the “conflict effect”. In terms of the peace effect, OFDI can promote the economic development of the host country and the home country, enhance economic and trade exchanges between countries, strengthen communication between countries, increase the opportunity cost of launching conflicts or wars, and promote the development of bilateral political relations in the direction of peace and friendship. However, OFDI's impact on bilateral political relations may also have peace effect. When OFDI between two countries is too close and forms economic dependence, especially when mutual dependence exceeds the controllability of local governments, bilateral political relations will become increasingly tense. In addition, OFDI not only brings cooperation and development between countries, but also brings competition and problems. These may strain bilateral political relations. Based on this, this article attempts to analyze whether OFDI will improve bilateral political relations, study the impact path, and explore which factors have a mediating effect on the improvement of bilateral political relations.

This paper makes the following contributions to the existing literature. First, it enriches the research on factors affecting bilateral political relations from the perspective of economic factors. Existing literature discusses the effect of economic factors on bilateral political relations mostly from the perspective of international trade. Fewer literature discusses the economic factors influencing bilateral political

relations from the perspective of OFDI. This study finds that there is an inverted U-shaped relationship between OFDI and bilateral political relations. The research findings of this article enrich the relevant research on the economic factors influencing bilateral political relations. Second, it enriches the literature on the political consequences of OFDI. Existing research mostly focuses on the economic consequences of OFDI, while few papers explore the political consequences of OFDI. The findings of this article expand the research on the political consequences of OFDI. Third, this article found that the implementation of the Belt and Road initiative is conducive for China to building good political relations with host countries through investment exchanges. This finding can provide theoretical support for the deepening and implementation of the Belt and Road Initiative.

II.Theory and hypotheses

1.Theory

There are two pieces of literature relevant to this study. The first literature involves the economic influencing factors of bilateral political relations; the second literature involves related research on the economic and political consequences of OFDI.

1.1 The impact of economic factors on bilateral political relations

OFDI's impact on bilateral political relations may have the peace effect or eonflict effect.

Scholars mostly study the economic impact on bilateral political relations from the perspective of trade, mainly based on trade peace theory, trade conflict theory and international trade mechanisms. There are few literature from the perspective of OFDI.

The trade peace theory believes that trade can promote peace. Kuang (2009) believes that the peaceful effect of international trade will be strengthened with the increase in openness to the outside world and the increase in the number of countries participating in the international trading system. Compared with the Cold War period, the peaceful effect of international trade has been significantly enhanced after the Cold War. Analyzing from the perspective of trade networks, Dorussen and Hugh (2010) believe that compared with indirect trade, direct trade between countries plays

a more obvious role in mitigating tensions. Furthermore, Lee and Ju (2016) found that trade integration at the bilateral or global level can promote peace and stability among countries. From a regional perspective, Beyene (2014) found that in North Africa, trade openness and trade dependence between countries can effectively suppress inter-state conflicts. Yang and Liu (2019) believe that the continuous growth of bilateral trade volume between China and East Asian economies has promoted the bilateral political relations. While each country's trade dependence on China has increased, it has also generated political centrifugal force.

However, the trade conflict theory believes that trade will trigger military conflicts. Martin et al. (2008) found that when war may be triggered due to information asymmetry, the opportunity cost caused by the loss of trade gains means that countries with tighter bilateral trade are less likely to escalate their relations. However, countries more open to global trade are more likely to be involved in wars. Because multilateral trade openness reduces bilateral dependence on any particular country and the costs of bilateral conflicts. When one country participates in international market competition through production and exports, it is more likely to lead to military conflicts. Chatagnier and Kavakl (2017) believe there is a strong relationship between economic competition in global markets and military conflicts between countries. Specifically, wars are generally more likely to occur between countries that produce and sell similar goods, even after considering countries' bilateral trade relationships and their institutional membership in global economic system. As far as Sino-US relations are concerned, Guan (2018) believes that capital and labor factor owners respectively rely on structural power and social movements to compete around the orientation of trade policy, making the adjustment logic of US trade policy concentrated on the balance between serving capital interests and countering social countermovements.

The establishment of an international trade mechanism can provide a communication platform for governments of various countries. Most existing studies believe that preferential trade agreements (PTAs) provide strong institutional incentives to prevent international conflicts among member states, which creates trust conditions for preventing militarized aggression. Hafner-Burton and Montgomery(2012) found that PTAs not only create expectations for economic gains and reduce opportunism, but also build hierarchical relationships between countries, which can lead to conflicts

due to distrust under different conditions. Vicard (2012) found that customs unions and deep regional trade agreements do reduce the likelihood of war between members. However, small-scale and shallow regional trade agreements have no impact on the probability of war. International insecurity thus has a differential impact on the motivations for establishing regional trade agreements. Deep regional trade agreements are between countries involved in many interstate disputes and have lower trade costs with the rest of the world, while shallow regional trade agreements are the opposite. Lang (2016) believes that developing countries still generally face the tension caused by regional conflicts, and the peaceful effect of the regional trade system is only effective under certain conditions.

1.2 The impact of international direct investment on the host country

The existing literature mostly studies the impact of OFDI on the host country's economy from the aspects of economic growth, employment, trade, etc. First, FDI promotes economic growth. The inflow of FDI has a significant positive impact on the economic growth of the host country (Williams, 2017), especially in emerging market economies (Huber et al., 2017). FDI brings tax revenue to the host country and improves the urban infrastructure of the host country (Yuan et al., 2017). In South-East Asia (SEA) and South Asia (SA), Rao et al.(2023) found that while foreign aid is negatively associated with FDI as well as growth, FDI positively influences growth. Second, FDI promotes trade. FDI inflow is conducive to improving the terms of trade of developing countries, especially for countries that are relatively closed and less dependent on foreign trade, and its improvement effect is more significant (Wacker, 2016). Third, FDI promotes employment. Multinationals' investment enhances the occupational status of workers and human capital returns in host countries (Liu et al., 2018). From the perspective of investment type, horizontal FDI has a positive effect on increasing wages, while vertical FDI has an insignificant role in promoting wage (Wang and Huang, 2017). FDI can reduce the poverty problem in the host country (Ge et al., 2016). Fourth, FDI promotes technological progress and innovation. The technology spillover effects of FDI exist in both developed and developing countries, but the spillover effects vary according to the host country's ability to absorb technology (Bruno and Cipollina, 2018). In Japan, South Korea, and China, the impact of FDI on labor productivity of host country has a positive impact through technology transfer and human capital skill development

(Ahmed et al. 2023).The technological spillover effect of FDI has a positive impact on the technological upgrading of local and neighboring cities (Wang et al., 2017), helping increase the domestic value-added rate of local enterprises in the host country (Mao and Xu, 2018). Amendolagine et al.(2022) found that compared to greenfield investments, acquisitions generate more technological opportunities.

Few scholars have studied the impact of OFDI on host countries from a political perspective. Wang et al. (2020) found that China's OFDI in developing countries can significantly reduce the possibility of internal conflicts in developing countries by providing employment opportunities, increasing the opportunity cost of people's participation in armed conflicts, and reducing the legitimacy and success rate of rebellion. However, the impact of foreign direct investment from the United States on suppressing internal conflicts in developing countries is not significant. Lu et al.（2021）found that the Belt and Road Initiative bolsters political relations by strengthening economic ties with partner countries through trade and investment related to economic cooperation.

1.3 The impact of international direct investment on the home country

OFDI will also have an impact on employment, technological innovation and trade in the home country. First, OFDI promotes exports. OFDI will also promote the exports of home country enterprises, specifically by expanding the export scale, improving the quality of export products, and improving the trade structure. Mao and Xu (2014a) found that in terms of export scale, China's OFDI increased the export probability and export sales proportion, reduced the risk of exiting the export market, and extended the export duration of home country enterprises, which has significant export creation effect. Chen and Huang (2014) found that China's OFDI has significantly promoted the growth of China's exports of intermediate products such as parts and components, machinery and equipment in both developed or developing countries. Second, OFDI promotes employment. Li et al. (2016) found that the more OFDI Chinese companies conduct, the more they can promote domestic employment. At the same time, Chinese enterprises' “going global” will help solve misallocation problem of domestic capital and labor (Bai and Liu, 2018). However, Jiang (2016) believes that the effect of OFDI on employment is not always positive, but shows an inverted "U"-shaped trend. Third, OFDI promotes technological progress and innovation. There is a reverse technology spillover effect in Chinese enterprises' "going global", which is mainly achieved

through the establishment of R&D, manufacturing and operating institutions overseas (Dong and Meng, 2014). When companies conduct OFDI to high-income countries, OFDI can extend the duration of corporate innovation (Mao and Xu, 2014b).

As the international environment changes, scholars are paying more and more attention to the impact of economic, trade and investment relations on bilateral political relations. Reviewing the existing literature, it is found that most studies on the influencing factors of bilateral political relations focus on international trade, and few literature study it from the perspective of OFDI. At the same time, the existing literature mostly focuses on the economic impact of OFDI on the host country and the home country, and less research on its political impact.

At present, there is little literature focusing on whether OFDI promotes or inhibits the bilateral political relations. China is the main source of international investment. In the context of the Belt and Road Initiative, will Chinese companies' “going global” have an impact on bilateral political relations? How to establish good political relations with host countries through OFDI is a question worth studying.

2.Hypotheses

OFDI's impact on bilateral political relations may have the peace effect or the conflict effect.

The peace effect of OFDI means that OFDI can promote bilateral political relations. From the perspective of opportunity cost, as OFDI increases, the opportunity cost of triggering political conflicts launching wars between countries increases significantly. Bussmann and Schneider (2007) believe that increasing FDI inflows can reduce bilateral conflicts.. OFDI can promote the economic development of host countries by increasing employment opportunities, promoting trade, improving productivity levels, etc. At the same time, OFDI also has a positive impact on the economic development, technological progress and exports of the home country. To a certain extent, OFDI promotes the economic development of both the host country and the home country and improves the welfare level of residents. Therefore, governments will pay more attention to maintaining good political relations with other countries and further deepen international direct investment cooperation. From the perspective of information asymmetry, increased OFDI can not only deepen economic and trade activities between countries, but also enhance political and cultural exchanges

between countries, improve information transparency between two countries, and reduce the degree of information asymmetry. The reduction of information asymmetry between countries can alleviate international political and economic frictions and provide more dispute resolution methods and channels for international political and economic frictions and conflicts.

The conflicting effect of OFDI means that OFDI may make bilateral political relations increasingly tense. From the perspective of investment dependence, if a country's economic development relies too much on FDI, it will cause tension in bilateral political relations. Especially when the degree of interdependence between a country exceeds the controllability of the local government, the tension in bilateral political relations will intensify. In recent years, countries such as Europe, the United States, and Japan have promulgated relevant laws and regulations to restrict foreign investment from entering important industries related to their national security through mergers and acquisitions. For example, on June 11, 2018, the British Parliament approved the amendment to the Enterprise Act 2002. On December 19, 2018, the German Cabinet passed the 10th Amendment to the Foreign Economic Law Regulations. On August 13, 2018, the United States passed the Foreign Investment Risk Review Modernization Act. In March 2019, the EU passed the EU Foreign Investment Review Framework Act. On November 22, 2019, Japan passed the newly revised Foreign Exchange Law and so on. From a competition perspective, the increase in OFDI will not only promote economic and trade cooperation between countries, but also intensify economic and trade competition between countries. For example, market-seeking FDI companies may squeeze out and divide the market share and profits of local companies. The host country is worried that resource-seeking FDI companies will enter the country and cause environmental pollution and technology-seeking FDI companies will damage the intellectual property rights of domestic companies, causing the outflow of core technologies and weakening the core competitiveness of domestic enterprises. At the same time, FDI companies may occupy the host country's land, financing and other resources, causing the crowding-out effect on the investment of domestic companies.

The peace effect and conflict effect of OFDI on bilateral political relations will appear in the following four situations in reality. Scenario 1: As OFDI increases, bilateral political relations become increasingly friendly. Scenario 2: As OFDI increases,

bilateral political relations become increasingly tense. Scenario 3: As OFDI increases, bilateral political relations turn from friendly to tense. Scenario 4: As OFDI increases, bilateral political relations turn from tense to friendly. We propose the following hypotheses:

Hypothesis 1: Bilateral direct investment exchanges have a positive impact on political relations between countries.

Hypothesis 2: Bilateral direct investment exchanges have a negative impact on political relations between countries.

Hypothesis 3: The impact of bilateral direct investment exchanges on the political relations between nationals shows a down -U -shaped relationship, that is, political relations between countries have shifted from friendly to tension.

Hypothesis 4: The impact of bilateral direct investment exchanges on political relations between countries shows a U -shaped relationship, that is, political relations between countries have shifted from tension to friendship.

III. Research design

1. Data and Variables

Dependent variable.

Bilateral political relations are the explained variables. We use the arithmetic average of the monthly political relations data constructed by Tsinghua University's China and Major Power Relations Database for measurement.[2] This indicator covers 12 countries with important political and diplomatic relations with China. The 12 countries include: the United States, Japan, Russia, the United Kingdom, France, India, Germany, South Korea, Australia, Pakistan, Indonesia, and Vietnam.The value range of this indicator is [-9, -9]. The value ranges are: Confrontation[-9, -6], Tension[-6, -3], Discord[-3, 0], Normal[0, 3], Good[3,6], Friendly[6, 9].This indicator is based on a Stream of Events. This indicator measures bilateral political relations from two dimensions of accumulation and flow of important events. This indicator is more targeted and accurate in measurement.

[2] Data source: http://www.imir.tsinghua.edu.cn/publish/iis/7522/index.html

Past literature mostly uses United Nations voting similarity to measure bilateral political relations. However, voting similarity mainly measures a country's foreign policy preferences for other countries, indicating the degree of similarity in foreign policy preferences between countries (Bailey et al., 2017).There are certain differences between foreign policy similarities and bilateral political relations. For example, in 2003, Germany opposed the United States' launch of the Iraq War, and in 2005, the United States opposed Germany's becoming a permanent member of the United Nations Security Council.The differences in diplomacy and strategy have not fundamentally affected the political relations between the two countries. The United States and Germany remain members of North Atlantic Treaty Organization (NATO).In addition, the literature also uses the voting similarity index as the explained variable to analyze whether the United States is becoming increasingly isolated on foreign policy issues (Voeten, 2004), and to determine whether socialization through international organizations will lead to the convergence of member states' interests (Bearce and Bondanella, 2007), whether the EU has begun to form a cohesive foreign policy (Drieskens, 2010), and whether leadership and regime changes will change its foreign policy orientation (Dreher and Jensen, 2013). Therefore, it is reasonable to use voting similarity as a proxy variable for bilateral political relations, but it is not direct and accurate enough.

In addition, Wang (2019) used indicators such as the duration of diplomatic relations, the number of high-level visits, partnerships, bilateral investment agreements and currency swap agreements to measure bilateral political relations.To a certain extent, these indicators can be used as proxy variables for bilateral political relations and have certain explanatory power. However, most of these indicators are dummy variables or discontinuous variables. It is hard to discern year-to-year changes in political relationships.Therefore, these indicators cannot accurately and directly measure and identify bilateral political relations.

In terms of index construction and measurement accuracy, the bilateral political relations index constructed by Tsinghua University's China and Major Powers Relations Database can better measure bilateral political relations. Therefore, we select this indicator for empirical testing and use bilateral investment treaties as control variables.In the robustness test, the currency swap agreement is included as a control variable, and the United Nations voting similarity index is used in robustness

tests.

Explanatory variables

OFDI is the core explanatory variable and is measured by the total foreign direct investment flow between China and country *i* in year *t* in US dollars (summing up China's OFDI in the host country and the host country's OFDI in China). The data comes from the Wind database.

Controls

Referring to the methods of Yang and Liu (2019) and Wang (2019), we select the following control variables.

(1) *Governing time*. The data on the remaining term of the head of government of the host country comes from the World Bank Database of Political Institutions. When the head of a host country's government first comes to power, he or she will handle political and diplomatic relations with other countries based on political performance and economic development. As the term of office of the head of the host country's government decreases, he or she will pay more attention to handling of internal relations within the host country. For reasons of re-election or power transfer, they will temporarily shelve disputed bilateral political relations.

(2) *Campaign intensity*. We select the campaign intensity index compiled by Scartascini Carlos and others for measurement.[3] This indicator divides the intensity of the campaign into seven levels from low to high based on the number of political parties participating in the election, the number of candidates, the power structure of the government and other indicators. Candidates will win favor with voters by showing political and diplomatic stances, and elections will also change a country's diplomatic and political tendencies. The more intense the election and the greater the electoral pressure in a country, the greater the possibility that the rulers will adopt more radical domestic and foreign policies (Yang and Liu, 2019).

(3) *Political institutions*. Bilateral political relations are closely related to the political system. The political system contains three core elements: the people's ability to effectively express their policy preferences, the institutional restraint of government power by law, and the power of law to ensure citizens' rights and political

[3] Data source website: https://publications.iadb.org/en/database-political-institutions-2017-dpi2017

participation. The data comes from the Polity IV Project database (1800-2017) established by Monty G. Marshal and others.4

(4) *GDP difference*. Differences in economic growth between countries reflect the differences of competitiveness between countries. Bilateral political relations are affected by differences in economic growth. We use the difference in GDP growth rate between the host country and China to measure. The data comes from the WDI database and CEIC database.

(5) *Military expenditure*. The strength of a country's military power will affect the direction of bilateral political relations. The more a country spends on military spending, the stronger its military power is. We measure a country's military spending as a percentage of its gross domestic product. The data comes from the military expenditure database provided by the Stockholm International Peace Research Institute (SIPRI).

(6) *BIT*. In order to promote investment between countries, two countries with relatively close investment exchanges will sign Bilateral Investment Treaty (BIT) to protect the interests of domestic enterprises overseas. The signing of the BIT shows that the two countries are relatively unified in the laws and regulations on the protection of international investment interests. The likelihood of disputes arising from OFDI is low. If host country *i* signed a bilateral investment agreement with China in year *t*, the value is 1, otherwise it is 0. The data comes from the Ministry of Commerce of China.

(7) *Cultural distance*. National culture shapes a country's political institutions and social governance model, and affects diplomatic traditions and international political concepts, which in turn affects a country's attitude and handling paradigm in the field of global governance and international affairs, and ultimately affects bilateral political relations (Alberto and Giuliano, 2015; Enrico and Wacziarg, 2016). The closer the culture distance between two countries, the easier it is for them to reach consensus in diplomatic and political communication. We use cultural distance to measure the cultural similarity between two countries. The data comes from the cultural distance

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[4] Data source website: http://www.systemicpeace.org/inscrdata.html.

index compiled by Enrico Spolaore and Romain Wacziarg.[5]

(8) *Hegemonic stability*. We measure hegemonic stability by dividing the total imports and exports of the host country by the total global imports and exports. This is a widely used measure of hegemony in studies of international political economy. Data comes from the World Bank.

2. Models

The sample period selected in this paper is 2003-2018. Tsinghua University's Database on China's Relations with Major Powers only includes 12 countries. In order to ensure the representatives of sample selection, we conducted the following analysis: (1) In terms of political relations, these 12 countries are countries that have an important influence on China's foreign politics. (2) These 12 countries are China's important sources of foreign direct investment and also China's important investment destinations. (3) In 2018, China's total OFDI in these 12 countries accounted for 41.41% of China's total OFDI flow and 43.93% of China's OFDI stock.[6] Based on this, the sample countries selected in this article are typically representative.

Our formal model was as follows:

$$Political_relationship_{i,t} = \beta_0 + \beta_1 OFDI_{i,t} + \beta_2 OFDI_{i,t}^2 + \beta_3 Control + Year + Country + \varepsilon \quad (1)$$

In the model, i represents the country and t represents the year. Bilateral political relationship ($Political_relation_{i,t}$) is the core explained variable, which represents the bilateral political relationship between country i and China in year t. The linear and quadratic terms of OFDI ($OFDI_{i,t}$) are the core explanatory variables, measured by the total bilateral OFDI between country i and China in year t. When the value of β_1 is positive and the value of β_2 is negative, it indicates that there is an inverted U-shaped relationship between OFDI and bilateral political relations. When the value of β_1 is negative and the value of β_2 is positive, it indicates that there is a positive U-shaped relationship between OFDI and bilateral political relations. *Control* is a control variables, specifically including the remaining time in power of the host

[5] Data source website: http://sites.tufts.edu/enricospolaore/

[6] It does not include Hong Kong, the British Virgin Islands, the Cayman Islands and the Bermuda Islands, which are major investment transit places and tax havens and other capital operation centers.

country(*Governing time*), intensity of election campaign(*Campaign intensity*), political institutions, GDP difference, military expenditure, bilateral investment agreement(BIT), cultural distance, and hegemonic stability. *Year* is the year fixed effect, *Country* is the country fixed effect, and $\mathcal{E}$ represents the random disturbance term.

3. Descriptive statistics

Table 1 shows the descriptive statistics results. The mean value of OFDI is 2.174, the maximum value is 19.37, and the minimum value is -0.198. This shows that China's investment exchanges with different countries vary greatly, and in some years there have been divestments between countries. The mean value of bilateral political relations is 4.816, the maximum value is 8.200, and the minimum value is -4.867. This shows that China's political relations with major countries in the world are generally friendly, but tensions in political relations still exist. The mean values of Governing time and campaign incentive are 1.870 and 6.583 respectively. This shows that the ruling party in the host country changes more frequently and the election campaign is more intense. The mean GDP difference is 5.851, the maximum value is 17.200, and the minimum value is -1.433. This shows that China and the sample countries have large differences in economic growth rates. The average BIT value is 0.885. This shows that 88.5% of the countries in the sample have signed bilateral investment agreements with China. The mean value of cultural distance is 6.939, the maximum value is 39.530, and the minimum value is -20.090. This suggests that within the sample, there are large cultural differences between countries. The mean value of hegemonic stability is 0.034, the maximum value is 0.136, and the minimum value is 0.002. This shows that different countries have different voices in world trade.

Table 1. Descriptive statistics

Variable	Observations	Mean	Standard deviation	Min	Median	Max
Political relationship	192	4.816	2.682	-4.867	5.392	8.200
OFDI	192	2.174	2.504	-0.198	1.272	19.370
Governing time	192	1.870	1.314	0.000	2.000	4.000
Campaign intensity	192	6.583	1.173	2.000	7.000	7.000
Political institutions	192	7.016	4.964	-7.000	9.000	10.000
GDP difference	192	5.851	3.217	-1.433	5.628	17.200

Military expenditure	192	0.023	0.010	0.006	0.023	0.055
BIT	192	0.885	0.319	0.000	1.000	1.000
Cultural distance	192	6.939	16.520	-20.090	5.554	39.530
Hegemonic stability	192	0.034	0.032	0.002	0.024	0.136

Note: The datasets generated and/or analysed during the current study are not publicly available due to privacy restrictions but are available from the corresponding author upon reasonable request.

4. Correlation Test

Table 2 shows the correlation test results. The correlation coefficient between OFDI and bilateral political relations is -0.526, which is significantly negative at the 1% statistical level. This shows that from a linear relationship perspective, OFDI has a negative correlation with bilateral political relations. The correlation coefficient between investment dependence and bilateral political relations is -0.672, which is significantly negative at the 1% statistical level. It shows that the closer the investment exchanges between the two countries are, the higher the degree of investment dependence will be, and the more tense the bilateral political relations will be. The correlation coefficients of campaign incentive, political institutions, GDP difference, military expenditure, and hegemonic stability are -0.150, -0.264, -0.128, -0.379, and -0.450 respectively, which are significantly negative at a statistical level. This shows that when the host country's election campaign becomes fiercer, the quality of its political institutions is higher, China's economic growth is faster than that of the host country, its military spending is larger, and the host country has more say in world trade, the political relationship between China and that country will become more tense. The correlation coefficient of cultural distance is 0.413, which is significantly positive at the 1% statistical level, indicating that two countries with similar culture context have more friendly political relations. The calculated variance inflation factor (VIF) of the independent variable is 3.18, indicating that there is no serious multicollinearity problem among these variables.

Table 2. Correlation Test

Variable	*Political relationship*	*OFDI*	*Investment dependence*	*Governing time*	*Campaign intensity*	*Political institutions*	*GDP difference*	*Military expenditure*	*BIT*	*Cultural distance*	*Hegemonic stability*
Political relationship	1										

OFDI	-0.526***	1									
Investment dependence	-0.672***	0.274***	1								
Governing time	0.03	-0.088	0.014	1							
Campaign intensity	-0.150**	0.267***	0.077	-0.059	1						
Political institutions	-0.264***	0.325***	0.129*	-0.11	0.853***	1					
GDP difference	-0.128*	0.097	0.073	-0.04	0.212***	0.333***	1				
Military expenditure	-0.379***	-0.02	0.307***	0.009	0.021	0.054	-0.025	1			
BIT	-0.063	0.122*	0.102	-0.036	-0.128*	-0.147**	-0.096	-0.456***	1		
Cultural distance	0.413***	-0.378***	-0.124*	0.049	0.11	0.247***	0.099	-0.257***	-0.113	1	
Hegemonic stability	-0.450***	0.570***	0.05	-0.078	0.332***	0.433***	0.406***	-0.012	-0.003	-0.338***	1

Note：***,**,and * represent significance at the 1,5,and 10 percent levels,respectively.All continuous Variables are winsorized at the 1% and 99% levels.

IV. Empirical results

1. Baseline regression analysis

Column (1) of Table 3 examines the relationship between OFDI flows and bilateral political relations separately. The OFDI coefficient is -0.563, which is statistically significant at the 1% level. This shows that the increase in OFDI between the two countries will have a negative impact on bilateral political relations. Column (2) introduces the OFDI quadratic term. The coefficient of the quadratic term of OFDI is -0.018, and the coefficient of OFDI is 0.338, both of which are statistically significant at the 1% level. This shows that there is an inverted U-shaped relationship between OFDI and bilateral political relations. This proves research hypothesis 3. Columns (3)-(5) of Table 3 add political, economic, and cultural control variables in sequence. The OFDI coefficients are all significantly positive, and the coefficients of the OFDI quadratic terms are all significantly negative, and they are all statistically significant at the 1% level. This shows that after gradually introducing control variables, the inverted U-shaped relationship between OFDI and bilateral political relations still holds.

Table 3. Estimation results for the overall sample

Variable	*Political relationship*				
	(1)	(2)	(3)	(4)	(5)
OFDI	-0.563***	0.338***	0.348***	0.378***	0.379***
	(-8.52)	(2.82)	(2.85)	(3.10)	(3.06)

OFDI²		-0.018***	-0.018***	-0.020***	-0.020***
		(-2.86)	(-2.78)	(-3.03)	(-3.00)
Governing time			0.000	-0.004	-0.003
			(0.00)	(-0.06)	(-0.05)
Campaign intensity			-0.069	-0.078	-0.072
			(-0.36)	(-0.42)	(-0.38)
Political institutions			0.088	0.083	0.076
			(1.01)	(0.96)	(0.85)
GDP difference				-0.014	-0.012
				(-0.28)	(-0.24)
Hegemonic stability				39.704**	42.353**
				(2.23)	(2.09)
Military expenditure					-0.583
					(-0.02)
Cultural distance					0.283***
					(4.51)
BIT					-0.163
					(-0.29)
Year-fixed effect	No	Yes	Yes	Yes	Yes
Country-fixed effect	No	Yes	Yes	Yes	Yes
Constant	6.040***	4.674***	4.293***	3.850***	-0.158
	(27.60)	(11.18)	(4.86)	(3.98)	(-0.10)
Observations	192	192	192	192	192
Adjusted R²	0.273	0.864	0.863	0.865	0.864

Note：***,**,and * represent significance at the 1,5,and 10 percent levels,respectively.All continuous Variables are winsorized at the 1% and 99% levels.

2. Robustness checks

To ensure the robustness of the empirical results of this article, we conduct the following robustness tests.

2.1 Replacing political relationship measurement indicators

In order to ensure the robustness of the empirical results, we adopt two methods to measure political relations. Method 1: Use the January, December and median values of the monthly political relations indicators constructed by Tsinghua University's "China and Major Powers Relations Database" for measurement. Affected by major political and diplomatic events, political relations between countries may fluctuate greatly in different months. Using this indicator can more comprehensively reflect the overall situation of bilateral political relations. Method 2: Use the United Nations

voting similarity index as substitute variable[7]. This indicator has been introduced previously and will not be repeated here.

Columns (1)-(4) of Table 4 report the regression results in sequence. The coefficients of OFDI are all significantly positive at least 10% level. The regression coefficients of OFDI quadratic terms are all significantly negative at the 1% statistical level. This shows that using other measurement methods of bilateral political relations does not change the inverted U-shaped relationship between OFDI and political relations between countries.

Table 4. Replacing political relationship measurement indicators

Variable	*Political relationship (January)*	*Political relationship (December)*	*Political relationship (Median)*	*United Nations voting similarity*
	(1)	(2)	(3)	(4)
OFDI	0.436***	0.316**	0.396***	0.009*
	(3.45)	(2.44)	(3.12)	(1.85)
OFDI²	-0.018***	-0.020***	-0.021***	-0.001***
	(-2.67)	(-3.00)	(-3.09)	(-3.40)
Governing time	-0.012	-0.007	0.003	-0.002
	(-0.19)	(-0.11)	(0.06)	(-0.92)
Campaign intensity	-0.083	-0.054	-0.081	-0.015*
	(-0.43)	(-0.27)	(-0.41)	(-1.95)
Political institutions	0.089	0.070	0.075	-0.001
	(0.97)	(0.74)	(0.82)	(-0.27)
GDP difference	-0.025	0.017	-0.014	0.001
	(-0.49)	(0.32)	(-0.27)	(0.53)
Hegemonic stability	48.025**	36.621*	43.095**	1.216
	(2.32)	(1.73)	(2.08)	(1.49)
Military expenditure	10.558	-7.383	-4.774	-2.806**
	(0.36)	(-0.25)	(-0.16)	(-2.43)
Cultural distance	0.303***	0.256***	0.286***	-0.011***
	(4.72)	(3.90)	(4.46)	(-4.41)
BIT	-0.015	-0.268	-0.238	-0.071***
	(-0.03)	(-0.45)	(-0.41)	(-3.07)
Year-fixed effect	Yes	Yes	Yes	Yes
Country-fixed effect	Yes	Yes	Yes	Yes
Constant	-1.107	0.584	-0.027	0.812***
	(-0.70)	(0.36)	(-0.02)	(13.05)
Observations	192	192	192	192

7 数据来源网站：https://dataverse.harvard.edu/dataset.xhtml?persistentId=hdl:1902.1/12379#datasetForm:tabView:metadataMapTab

Adjusted R^2	0.852	0.855	0.857	0.974

2.2 Omitted variables

In order to solve the problem of omission bias, we replaced and added new control variables for robustness tests. (1) GDP difference is measured by the difference in per capita GDP growth rate. (2) Military expenditure is measured by per capita military expenditure. (3)Developed countries dummy variable, which equals 1 if the country is a developed country, otherwise equals 0. (3)Currency swap. When China and the host country sign a bilateral currency swap agreement in year *t*, the value is 1, otherwise it is 0. The data comes from the People's Bank of China.

Table 5 reports the regression results. The coefficient of OFDI is 0.333, which is statistically significant at 5% level. The coefficient of the OFDI quadratic term is -0.021, which is statistically significant at the 1% level. The empirical results are basically consistent with the previous article. It shows that after controlling for omitted variable bias, the research conclusions of this article are still robust.

Table 5. Omitted variables

Variable	*Political relationship*
OFDI	0.333**
	(2.53)
$OFDI^2$	-0.021***
	(-3.06)
Governing time	-0.007
	(-0.11)
Campaign intensity	-0.061
	(-0.31)
Political institutions	0.080
	(0.84)
GDP difference	0.018
	(0.35)
Hegemonic stability	33.888
	(1.59)
Per capita military expenditure	-0.000
	(-0.14)
Cultural distance	0.251***
	(3.76)
BIT	-0.271
	(-0.45)
Developed country	-9.008***

	(-3.86)
Currency swap	-0.178
	(-0.59)
Constant	9.584***
	(5.67)
Observations	192
Adjusted R^2	0.855

2.3 Replacing explanatory variables

We adopt bilateral direct investment flows as the core explanatory variable in the main regression. The flow of OFDI can reflect the investment intensity between the two countries in that year. The stock of OFDI can reflect the investment intensity between the two countries in a longer time dimension. Therefore, we use OFDI stocks for robustness testing. OFDI stock is measured by the logarithm of the direct foreign direct investment stock between China and country *i* in year *t*, denominated in US dollars.

Column (1) of Table 6 examines the relationship between OFDI and political relations between countries separately. The OFDI coefficient is -0.393, which is statistically significant at the 1% level. This shows that as OFDI increases, political relations between countries will become tense. Columns (2) to (5) of Table 6 add political, economic, and cultural control variables in sequence, covering remaining time in power, campaign intensity, political institutions, growth rate differentials, hegemonic stability, military spending, cultural distance and bilateral investment agreements.The OFDI coefficient is significantly positive at at least a 5% statistical level. The coefficient of the OFDI quadratic term is significantly negative at at least a 5% statistical level.

Table 6. Replace explanatory variables

Variable	*Political relationship*				
	(1)	(2)	(3)	(4)	(5)
OFDI stock	-0.393***	2.838***	2.874***	2.666**	2.893**
	(-3.26)	(2.67)	(2.67)	(2.45)	(2.59)
OFDI stock²		-0.071***	-0.072***	-0.066**	-0.073**
		(-2.72)	(-2.70)	(-2.46)	(-2.60)
Governing time			0.035	0.032	0.034

			(0.57)	(0.53)	(0.56)
Campaign intensity			-0.093	-0.110	-0.127
			(-0.49)	(-0.58)	(-0.67)
Political institutions			0.086	0.086	0.094
			(0.98)	(0.98)	(1.05)
GDP difference				-0.012	-0.012
				(-0.24)	(-0.24)
Hegemonic stability				27.322	25.946
				(1.50)	(1.23)
Military expenditure					-27.584
					(-0.94)
Cultural distance					0.217***
					(3.36)
BIT					0.197
					(0.32)
Year-fixed effect	No	Yes	Yes	Yes	Yes
Country-fixed effect	No	Yes	Yes	Yes	Yes
Constant	13.374***	-22.664**	-23.427**	-21.781*	-26.501**
	(5.08)	(-2.10)	(-2.13)	(-1.96)	(-2.36)
Observations	192	192	192	192	192
Adjusted R^2	0.048	0.863	0.862	0.862	0.861

V. Mechanism analysis

According to the theoretical analysis and empirical results, it is found that with the increase of OFDI, bilateral political relations gradually shift from friendly to tense. We empirically test it from the perspective of over-dependence mechanism and competition mechanism.

1. Over-dependence mechanism test

We examine the impact of OFDI on bilateral political relations from the perspective of investment dependence. When there are more investment flows between two countries, the investment dependence between two countries becomes higher. The host country is worried that its foreign direct investment mainly comes from a specific country, which will affect its government's control over specific industries or economies, leading to tension in bilateral political relations.

We use (China's OFDI + China's FDI)/(host country's OFDI + host country's FDI) to measure investment dependence. The data comes from UNCTAD data and Wind

database. To test the over-dependence mechanism, we construct model (2) for testing. $OFDItens_{i,t}$ in the model represents investment dependence. Other variables in the model are consistent with model (1) and will not be described again here.

$$Political_relation_{i,t} = \beta_0 + \beta_1 OFDItens_{i,t} + \beta_2 OFDItens_{i,t}^2 + \beta_3 control + year + country + \varepsilon \quad (2)$$

Column (1) of Table 7 examines the relationship between investment dependence and bilateral political relations separately. The coefficient of investment dependence is -12.155, which is statistically significant at the 1% level. This shows that the increase in investment dependence will have a negative impact on bilateral political relations. Column (2) introduces the quadratic term of investment dependence. The coefficient of the quadratic term of investment dependence is -15.566, and the coefficient of investment dependence is 7.361, which is statistically significant at at least 5% level. It shows that there is an inverted U-shaped relationship between investment dependence and political relations between countries. Investment dependence equal to 0.236 is the turning point of the inverted U-shaped curve. That is, the host country's investment dependence on China reaches 23.6%. The turning point falling within the numerical range of the sample [0.000, 0.883] can effectively explain the inverted U-shaped relationship between investment dependence and bilateral political relations.

Columns (3) to (5) of Table 7 add political, economic, and cultural control variables in sequence. The investment dependence coefficients are significantly positive at the 5% statistical level. The coefficients of the quadratic terms of investment dependence are significantly negative at the 1% statistical level.This shows that after gradually introducing control variables, the inverted U-shaped relationship between investment dependence and bilateral political relations still exists. Empirical results show that as OFDI increases, bilateral political relations will gradually shift from friendly to tense.

Table 7. Over-reliance on mechanism test

Variable	*Political relationship*				
	(1)	(2)	(3)	(4)	(5)
Investment dependence	-12.155***	7.361**	7.322**	7.296**	7.532**
	(-12.50)	(2.25)	(2.23)	(2.21)	(2.23)
Investment dependence^2		-15.566***	-15.583***	-15.639***	-15.911***
		(-4.46)	(-4.45)	(-4.45)	(-4.41)
Governing time			0.021	0.023	0.021

			(0.44)	(0.48)	(0.45)
Campaign intensity			-0.237	-0.237	-0.239
			(-1.63)	(-1.63)	(-1.61)
Political institutions			0.130*	0.131*	0.137*
			(1.95)	(1.96)	(1.97)
GDP difference				-0.047	-0.049
				(-1.17)	(-1.23)
Hegemonic stability				-1.654	-5.376
				(-0.12)	(-0.33)
Military expenditure					6.872
					(0.30)
Cultural distance					0.126**
					(2.53)
BIT					0.185
					(0.41)
Year-fixed effect	No	Yes	Yes	Yes	Yes
Country-fixed effect	No	Yes	Yes	Yes	Yes
Constant	5.355***	5.024***	5.362***	5.690***	3.603***
	(35.68)	(17.26)	(8.27)	(7.88)	(3.13)
Observations	192	192	192	192	192
Adjusted R^2	0.448	0.916	0.917	0.917	0.916

2.Competition mechanism test

In recent years, China has gradually transformed from a destination country for FDI to an important origin country for OFDI. In 2018, the total foreign investment attracted by China accounted for 10.7% of the total foreign investment attracted by the world. At the same time, China has established 43,000 foreign direct investment enterprises in 188 countries (regions). China's increasing competitiveness in international investment has brought competitive pressure to other countries.

China has always pursued a policy of non-alignment. In the context of intensified global competition, the military alliance between the host country and the United States will affect the host country's diplomatic attitude towards China, and then affect the bilateral political relations between China and the host country. At the same time, China plays an increasingly important role in international investment. Developed countries that are military allies of the United States are worried that over-reliance on foreign direct investment from China in the country's core industries will threaten their national security and affect their international competitiveness. Therefore, as OFDI between China and the US military allies increases, the bilateral political

relations between China and the US military allies will become increasingly tense.

We conduct group examinations according to the countries with which the United States has military alliances.Table 8 reports the regression results. Column (1) examines the sample group of U.S. military alliances. The OFDI coefficient is 0.455, which is statistically significant at the 1% level. The coefficient of the OFDI quadratic term is -0.020, which is statistically significant at the 5% level. It shows that when investing in a U.S. military ally, there is a significant inverted U-shaped relationship between China's OFDI and bilateral political relations with that country. Column (2) examines the sample group of non-U.S. military alliances.The coefficient of OFDI is 0.284, and the coefficient of the quadratic term of OFDI is 0.065, which is not statistically significant. The inverted U-shaped relationship indicating investment exchanges and political relations is not significant among non-US military allies.

Table 8. Competition mechanism test

Variable	*Political relationship*	
	U.S. military alliance	*non-U.S. military alliance*
	(1)	(2)
OFDI	0.455***	0.284
	(2.72)	(0.69)
$OFDI^2$	-0.020**	0.065
	(-2.21)	(0.43)
Governing time	-0.053	0.102**
	(-0.49)	(2.03)
Campaign intensity	0.000	-0.091
	(0.00)	(-0.81)
Political institutions	0.528	0.039
	(1.25)	(0.77)
GDP difference	0.099	-0.118***
	(0.77)	(-3.27)
Hegemonic stability	47.040	-99.596**
	(1.44)	(-2.35)
Military expenditure	-48.969	35.535
	(-0.80)	(1.41)
Cultural distance	-0.018	0.030**
	(-0.37)	(2.65)
BIT	0.000	0.535
	(0.00)	(1.41)
Year-fixed effect	Yes	Yes
Country-fixed effect	Yes	Yes
Constant	-1.028	4.961***

	(-0.24)	(5.37)
Observations	112	80
Adjusted R^2	0.835	0.904

3.Impact of the 2008 financial crisis

In recent years, developing countries have played an increasingly prominent role in international direct investment. After 2000, developing countries gradually participated in international direct investment, and the proportion of international direct investment in developed countries gradually declined. According to UNCTAD, OFDI flows from developing countries accounted for 41% of global international direct investment in 2018. The United States, the United Kingdom, the Netherlands, Japan, Canada and China are the main sources of investment. The 2008 global financial crisis had a greater impact on the global economy. During the period of economic recovery in Europe and the United States, the spillover effect of China's economy has attracted global attention (Yang and Liu, 2019). After the outbreak of the global financial crisis in 2008, a large number of companies in developed countries faced problems such as capital shortages, market shrinkage, and operating difficulties. This provides opportunities for Chinese enterprises to invest overseas (Wang and Gao, 2019). International direct investment flows fell by 14% in 2008 (UNCTAD, 2009), but China's outward direct investment flows more than doubled in 2008, reaching $55.9 billion dollars. After 2008, China has played an increasingly important role in international investment. Therefore, it is worth exploring whether China's rising international investment status will have an impact on political relations between countries.

Table 9 reports the regression results. Column (1) examines the sample group following the 2008 financial crisis. The coefficient of OFDI is 0.344, and the coefficient of the quadratic term of OFDI is -0.013, which is statistically significant at at least 10% level. Column (2) examines the sample group before the 2008 financial crisis. The coefficient of OFDI is -0.196, and the coefficient of the quadratic term of OFDI is -0.002, which is not statistically significant. Empirical results show that there is a significant inverted U-shaped relationship between OFDI and bilateral political relations after the 2008 financial crisis. This shows that as China's international direct investment status rises, investment destination countries' diplomatic tendencies and political attitudes towards China have also changed.

Table 9. Impact of the 2008 financial crisis

Variable	*Political relationship*	
	After the 2008 Global Financial Crisis	*Before the 2008 Global Financial Crisis*
	(1)	(2)
OFDI	0.344**	-0.196
	(2.17)	(-0.31)
OFDI²	-0.013*	-0.002
	(-1.69)	(-0.02)
Governing time	0.089	-0.155*
	(1.20)	(-1.78)
Campaign intensity	-0.145	1.022
	(-0.61)	(1.53)
Political institutions	0.809***	0.143
	(3.36)	(1.08)
GDP difference	0.051	-0.207
	(0.79)	(-1.48)
Hegemonic stability	45.746	31.636
	(1.05)	(0.72)
Military expenditure	-53.513	264.223***
	(-1.54)	(3.02)
Cultural distance	0.282**	-0.171*
	(2.28)	(-1.90)
BIT	0.776	0.869
	(0.50)	(1.46)
Year-fixed effect	Yes	Yes
Country-fixed effect	Yes	Yes
Constant	-7.329	-5.699
	(-1.65)	(-1.32)
Observations	132	60
Adjusted R^2	0.870	0.921

VI. Heterogeneity analysis

In recent years, scholars have gradually emphasized the importance of the Belt and Road Initiative in promoting economic and trade cooperation and promoting mutual trust and friendly international political relations. The Belt and Road Initiative provides a platform for interaction and communication between governments of participating countries, which can reduce information asymmetry between countries, reduce the possibility of strategic misjudgments, and ease tensions between countries. Cai (2016) pointed out that China's economic status should be continuously improved to enhance its voice in global governance and promote the internal and external

linkage of China's economy through the Belt and Road Initiative. In the process of promoting the construction of the Belt and Road international rules system, China should properly handle the relations between major countries, seek convergence of interests through strategic alignment, and effectively reduce the multilateral resistance and political risks of the Belt and Road (Men, 2018) . The Belt and Road Initiative can exert its all-round opening-up function and realize the goal of a community with a shared future for mankind. It is a new, development-oriented regional cooperation mechanism (Li, 2018). The Belt and Road Initiative is essentially a functional cooperation between China and countries along the route based on a specific geospatial environment and follows functional logic (Wu, 2018). We will examine the role of the Belt and Road Initiative in helping Chinese companies “go global” and enhancing relations between countries.

We conduct group tests on the sample countries. Table 10 reports the regression results. Column (1) examines the relationship between OFDI and bilateral political relations within the sample group of countries along the Belt and Road. The coefficient of OFDI is -1.500, and the coefficient of the quadratic term of OFDI is 0.417, both of which are statistically significant at the 1% level. This shows that the initial stage of OFDI between China and countries along the Belt and Road may be detrimental to the improvement of bilateral political relations. As China's OFDI in countries along the Belt and Road countries increases, bilateral political relations will gradually become friendly. In countries along the Belt and Road, there is a U-shaped relationship between OFDI and bilateral political relations. The possible explanation is that most of the Belt and Road countries are developing countries with underdeveloped economies. For the initial stage of OFDI, the host country government and local people may have concerns. With the increase of OFDI, mutual trust and economic and trade exchanges between the two countries have increased, and OFDI will help improve bilateral political relations. Column (2) examines the relationship between investment flows and political relations between countries in the sample group of countries not along the Belt and Road. The coefficient of OFDI is -0.417, and the coefficient of the quadratic term of OFDI is -0.018, which is statistically significant at at least 5% level. This shows that the inverted U-shaped relationship between OFDI and political relations exists in countries not along the Belt and Road. Considering the sample distribution, most of the U.S. military allies in the sample are countries not along the Belt and Road Initiative. This result also

corroborates the conclusions of the competition mechanism study. Empirical results show that the implementation of the Belt and Road initiative helps build an international platform for interaction and communication, and is conducive for China to building good bilateral political relations with host countries through OFDI.

Table 10. The impact of the Belt and Road Initiative

Variable	*Political relationship*	
	Countries along the Belt and Road	*Countries not along the Belt and Road*
	(1)	(2)
OFDI	-1.500***	0.417***
	(-2.79)	(2.75)
OFDI^2	1.417***	-0.018**
	(4.68)	(-2.21)
Governing time	0.066	-0.049
	(1.53)	(-0.51)
Campaign intensity	-0.049	0.000
	(-0.52)	(0.00)
Political institutions	0.057	0.584*
	(1.21)	(1.74)
GDP difference	-0.129*	0.080
	(-1.96)	(0.98)
Hegemonic stability	-102.167*	44.835
	(-1.89)	(1.56)
Military expenditure	69.648***	-56.401
	(2.97)	(-1.02)
Cultural distance	0.024**	0.283***
	(2.41)	(3.16)
BIT	1.180**	-0.262
	(2.58)	(-0.25)
Year-fixed effect	Yes	Yes
Country-fixed effect	Yes	Yes
Constant	3.794***	-5.312
	(4.50)	(-1.30)
Observations	64	128
Adjusted R^2	0.916	0.864

VII. Conclusions and policy implications

This article uses data on outward foreign direct investment to 12 countries with close investment relations with China to study the impact of OFDI on political relations between countries. There is an inverted U-shaped relationship between OFDI and political relations between countries. Moderate outward direct investment between the two countries can help improve their relations. However, the close relationship between foreign direct investment and high dependence on investment have led to political tensions between countries. When the bilateral OFDI dependency exceeds 23.6%, political relations between countries shift from friendly to tense. Mechanism testing has found that the host country is concerned about excessive investment dependence and intensified competition, which are important reasons for political tensions between countries. With the increasing dependence on investment between the two countries, political relations between them are becoming increasingly tense. When the host country is a US military ally, the inverted U-shaped relationship between OFDI and political relations between countries is more significant. After the 2008 financial crisis, the inverted U-shaped relationship between OFDI and political relations between countries became more apparent. Further research finds that in countries not along the the Belt and Road, there is an inverted U-shaped relationship between OFDI and political relations.

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