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A Study on the Impact of Bilateral Political Relations on China's Outward Foreign Direct Investment

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Abstract

This paper investigates the effect and the underlying mechanisms through which bilateral political relations (BPR) shape China's outward foreign direct investment (OFDI). To achieve this objective, we use data on China's OFDI in 194 host countries over the period 2007-2023 and construct a novel multidimensional index of BPR that combines nine indicators across four dimensions—central government behavior, local government behavior, formal institutional arrangements, and informal institutional arrangements—by means of principal component analysis. Our main finding is that favorable BPR significantly promote China's OFDI in the host country, and this result remains robust to alternative measures of BPR, additional host-country controls, and corrections for potential endogeneity. The mechanism analysis further reveals that good BPR foster China's OFDI in specific host countries through two complementary channels: the conclusion of economic contracts (overseas industrial parks, bilateral investment treaties, and double taxation avoidance agreements) and the promotion of cultural exchanges. The heterogeneous analysis shows that the effect is more pronounced for developed countries, non-neighboring countries, Asian and European countries, and host countries whose institutional quality lies in the top and bottom quartiles of the overall sample. The main contribution of this paper is threefold: it offers a more comprehensive and systematic measure of BPR than the single-indicator proxies used in prior work, it identifies the economic and cultural channels through which BPR transmit to OFDI, and it provides practical implications for governments, multinational enterprises, and developing host economies.

Keywords

Bilateral Political Relations, Outward Foreign Direct Investment, Economic Contracts, Cultural Exchanges, Principal Component Analysis

1. Introduction

With the increasing trend of economic globalization, foreign direct investment (FDI) has become one of the most important international economic activities (Desbordes, 2010; Buchanan et al., 2012; Kunychka et al., 2023), and promoting the smooth development of FDI is of great significance to world economic growth. At present, China's outward foreign direct investment (OFDI) increasingly exhibits the characteristics of covering a wide range of countries and regions and diversifying investment fields, playing an important role in stimulating host-country economic growth, increasing tax revenue, and promoting employment. Early research on OFDI location choice mainly focuses on the specific advantages of host countries, including institutional advantages (Lu et al., 2014; Madani and Nobakht, 2014), resource advantages (Buckley et al., 2007), and market advantages (Buckley et al., 2007). However, the influence of international relations cannot be ignored when making OFDI decisions, of which political relations are the most important and active component. In this study, we explore how bilateral political relations (BPR) affect China's OFDI location choice.

To answer the above question, we use the comprehensive index developed by principal component analysis (PCA) as the quantitative measure of BPR, together with data on China's OFDI in 194 countries from 2007 to 2023, to investigate the effect of BPR on China's OFDI. Our findings suggest that good BPR significantly promote China's OFDI in the host country (Gammeltoft et al., 2010; Duanmu, 2014; Bratosin-Vasilache and Maha, 2022). This conclusion remains valid after several robustness tests. We then empirically examine the mechanisms through which BPR affect the location choice of China's OFDI from economic and cultural perspectives. The results show that good BPR promote China's OFDI in specific host countries through the conclusion of economic contracts—overseas industrial parks, bilateral investment treaties, and double taxation avoidance agreements—as well as through higher cultural exchanges. Next, we conduct a further analysis according to the development level, geographical location, and institutional quality of the host country. We find that BPR have a more significant impact on China's OFDI in developed countries, non-neighboring countries, Asian and European countries, and countries whose institutional quality lies in the top and bottom quartiles of the total sample. Finally, we discuss the policy implications of these findings.

The primary objective of this study is twofold: first, to estimate the overall effect of BPR on China's OFDI at the country level, and second, to identify the channels through which this effect operates. Based on rational choice institutionalism and transaction cost theory, we propose two testable hypotheses. First, favorable BPR are expected to reduce the costs and risks associated with overseas investment and therefore to promote China's OFDI in the host country (Hypothesis 1). Second, BPR are expected to affect OFDI through two mechanisms—the conclusion of binding economic contracts and the deepening of cultural exchanges—both of which mitigate institutional deficiencies and lower transaction costs (Hypothesis

2). These hypotheses are formally developed in Section 3.

Our paper makes several contributions to the literature. First, our paper contributes to the literature studying OFDI location selection. Prior studies have discussed the influencing factors of OFDI location selection in a comprehensive way, including the host country's market advantages (Buckley et al., 2007), institutional environment (Lu et al., 2014; Madani and Nobakht, 2014; Rottig et al., 2019), natural resource endowment (Buckley et al., 2007), risk degree (Henisz, 2000; Al Khattab et al., 2007), cultural distance (Quer et al., 2012), and distortion of the home country's factor market (Chen et al., 2019). Prior work also documents that, unlike firms from developed countries, Chinese investors may sometimes rely on relationship advantages to compensate for their disadvantages in ownership, internalization, and location (Rui and Yip, 2008). However, the importance of BPR in China's OFDI has received scant attention in the international business literature. This paper studies the effect and mechanism of BPR on China's OFDI location selection, which enriches the literature on OFDI location selection, especially for emerging economies.

Second, our paper contributes to the interdisciplinary field of international politics and international business. On the one hand, some prior research suggests that there is a significant positive correlation between BPR and transnational economic activities worldwide (Davis and Meunier, 2011; Gammeltoft et al., 2010; Duanmu, 2014). On the other hand, some research argues that BPR have no significant impact on transnational economic activities (Morrow et al., 1998; Reuveny and Kang, 1998; Davis et al., 2017). In general, prior studies focus on the theoretical analysis of the influence of BPR on OFDI, whereas fewer studies are backed by appropriate empirical verification. In this context, our paper adopts an interdisciplinary research approach and empirically examines the effect and mechanisms through which BPR affect the location choice of China's OFDI from economic and cultural perspectives. Our study shows that good BPR can promote China's OFDI by concluding economic contracts and enhancing cultural exchanges.

Third, our paper contributes to the recent research on the measurement of BPR. The existing literature mostly uses a single indicator as a proxy for BPR, such as the leader's visit (Nitsch, 2007; Yeo and Lee, 2009; Zhang et al., 2011), diplomatic relations (Makino and Tsang, 2011), and voting patterns in the UN General Assembly (Fuchs and Klann, 2013; Duanmu, 2014; Li et al., 2018). The proxy variables used in existing research may be unrepresentative and unpersuasive, and the logical connections between different quantitative indicators of BPR also lack systematic sorting and induction. This paper divides BPR into multiple dimensions according to the criteria of central government behavior, local government behavior, formal institutional arrangements, and informal institutional arrangements. Furthermore, this study innovatively introduces the idea of social network theory into the political field, arguing that international organizations are the manifestation of state-relations networks, and adds a new indicator—whether the host country joins an international organization initiated by China—to the depiction

of BPR. By using the PCA method, the multidimensional indicators are scientifically synthesized into a comprehensive index that measures the level of BPR more comprehensively than any single proxy used in prior work.

In sum, the novelty of this paper relative to prior studies lies in three respects: (i) a more comprehensive, multidimensional measure of BPR that overcomes the limitations of single-indicator proxies; (ii) an explicit identification of the economic-contract and cultural-exchange channels through which BPR affect OFDI; and (iii) a detailed heterogeneous analysis across host-country development levels, geographical locations, and institutional-quality groups.

The rest of this paper is structured as follows. Section 2 reviews the relevant literature, Section 3 presents the theoretical foundations and hypothesis development, Section 4 describes the research design, Section 5 reports the empirical results, and Section 6 concludes the study.

2. Literature Review

This paper stands at the intersection of two streams of literature. The first concerns the host country's characteristics that affect FDI, and the second concerns the impact of BPR on OFDI and its assessment.

2.1. Host-Country Characteristics Affecting FDI

The early research on FDI location choice mainly focuses on the specific advantages of host countries (Dunning, 1977), and the majority of early researchers believed that host countries with high institutional quality (Lu et al., 2014; Madani and Nobakht, 2014), abundant resource endowments (Buckley et al., 2007), and large markets (Buckley et al., 2007) have a competitive advantage in attracting FDI. In addition, rent-seeking (Keng et al., 2020), outbound tourism (Malik and Latif, 2021), ecological environment (Khan et al., 2021), and so on may also significantly affect the flow of FDI.

Within this stream, a growing body of recent work highlights the role of institutional quality and its dark side—corruption—in shaping economic performance and, ultimately, investment attractiveness. In particular, a series of recent panel-data studies on the determinants of economic growth documents that institutional quality, macroeconomic stability, and the containment of corruption are closely tied to sustained growth, which in turn conditions the investment climate of host economies (Batrancea et al., 2022a, 2023a). For instance, Batrancea et al. (2022a) analyze the drivers of economic growth across European countries and emphasize the joint contribution of institutional and macroeconomic factors, while Batrancea et al. (2023a) extend this evidence to a panel of 50 countries over half a century. From a corruption perspective, Batrancea et al. (2023b) provide cross-cultural evidence on how bribery acts distort business environments and deter legitimate investment, underscoring that a weak rule of law and endemic corruption can discourage foreign investors. These findings are relevant to our setting because BPR, by helping to compensate for weak host-country institutions, can

partly offset the negative effects of poor institutional quality and corruption on investment (Rottig et al., 2019; Batrancea et al., 2023b). At the same time, macroeconomic instability—high inflation, banking fragility, and unsustainable public finances—can depress growth and reduce the expected returns of overseas investment (Batrancea et al., 2009; Batrancea et al., 2013; Batrancea, 2021a), which motivates our inclusion of host-country inflation and tax burden among the control variables. Consistent with this view, recent empirical work shows that sustained economic growth, healthy corporate financial performance, and a favorable institutional environment are tightly linked to long-run investment attractiveness, both across countries and across firms (Batrancea, 2021b, 2023; Batrancea et al., 2022b, 2023c).

Some literature also examines the influence of political factors, especially the impact of the host country's political risk on OFDI location selection. Some related literature suggests that political risk increases the likelihood of MNEs being expropriated by host countries and therefore has a negative impact on overseas investment projects in developing countries (Henisz, 2000; Al Khattab et al., 2007). However, some studies also show that political risk is not a major consideration for Chinese MNEs when selecting OFDI location (Kolstad and Wiig, 2012); sometimes Chinese MNEs in the process of going global even exhibit the characteristics of political risk appetite (Buckley et al., 2007; Cheung et al., 2011). Furthermore, some scholars show that the political risk faced by Chinese MNEs in carrying out OFDI activities is mostly manifested in wars, terrorism, and frequent adjustments to host countries' foreign investment legislation (Powers and Choi, 2012; Shahzad et al., 2016).

In recent years, research on political factors in OFDI location decisions has gradually expanded from the political risk of the host country to BPR, that is, from examining only the unilateral characteristics of the host country to studying the two-way interaction between the host country and the home country.

2.2. Impact of BPR on OFDI and Its Assessment

The other stream of literature with which this paper is closely linked concerns the impact of BPR on OFDI and its assessment. The proximity of BPR is measured by the degree to which two governments are consistent in their views on international affairs and the degree to which their national interests are similar (Gartzke, 1998). Factors such as the ideology, historical relationship, and specific political events of the two countries can affect their BPR (Makino and Tsang, 2011; Mourao, 2018).

Scholars at home and abroad widely recognize that good BPR have a significant role in promoting OFDI (Mourao, 2018). For example, high-level mutual visits are the highest form of bilateral diplomatic activities and the barometer of political relations between countries. MNEs may plan their investment operations in accordance with the government's political preferences; hence, the leader's visit positively affects OFDI activities (Nitsch, 2007; Yeo and Lee, 2009; Zhang et al., 2011).

The longer the diplomatic relation is established between countries, the more conducive it is for MNEs to develop their understanding of the host country and thus better adapt to and integrate into the local institutional environment (Makino and Tsang, 2011). Voting patterns in the UN General Assembly on international affairs reflect the degree of political proximity between countries. Therefore, as one of the proxy variables used to measure BPR, voting patterns in the UN General Assembly can also have a positive impact on OFDI activities (Fuchs and Klann, 2013; Duanmu, 2014; Li et al., 2018). Furthermore, when engaging in OFDI operations, MNEs usually prefer host countries with similar political ideologies (Morrow et al., 1998) and high diplomatic levels with their home country (Sun and Liu, 2019), host countries that grant visa-free status to their citizens (Yasar et al., 2012), and host countries with a large number of sister cities with their home country (Tjandradewi and Marcotullio, 2009; Desbordes, 2010).

Additionally, most of the existing literature uses negative political events to describe the tension of BPR. The construction and operation of overseas investment projects take a long time and have high sunk costs; furthermore, MNEs are often in a weaker position than host-country governments (Acemoglu, 2003; Acemoglu and Johnson, 2005). When BPR deteriorate, the host governments may more easily shift the cost of political conflicts to MNEs from hostile countries. The host governments directly penalize MNEs from hostile countries by expropriating assets; indirectly, they do so through a series of discriminatory policies and more stringent restrictions (Kesternich and Schnitzer, 2010). Thus, most existing research suggests that negative BPR, such as consumer boycotts due to political friction (Davis and Meunier, 2011), war in history (Gao et al., 2018), military conflict (Biglaiser & DeRouen, 2007; Li and Vashchilko, 2010), and disputes over territorial claims (Nitsch, 2007), have a long-term negative impact on OFDI.

However, some studies also argue that leaders' visits (Head and Ries, 2010), the establishment of embassies (Yakop and van Bergeijk, 2011), and non-war political frictions (Davis and Meunier, 2011) have limited impact on international economic activities.

3. Theoretical Foundations and Hypothesis Development

3.1. BPR, Economic Contracts, and China's OFDI

Good BPR can create favorable conditions for the conclusion of contracts between the two countries in the economic field. For example, bilateral investment treaties (BITs) signed between countries can be considered one of the most important outcomes of commercial diplomacy, and their positive impact on OFDI activities depends on factors such as the institutional environment of the host country and the content of the treaties (Crotti et al., 2010; Egger and Merlo, 2012; Adewuyi and Bankole, 2013). Furthermore, the fair use of double taxation avoidance agreements (Davies et al., 2009; Baker, 2014) can also have a positive impact on the successful going global of enterprises. Besides, overseas industrial parks have now become a new method of China's foreign economic and trade cooperation

(Brautigam and Tang, 2014).

According to rational choice institutionalism (Lane and Ersson, 1999), rational human behavior is constrained by existing institutions on the one hand, while on the other hand, based on the principle of maximizing individual interests, individuals can also consciously design and create institutions according to their needs. The overseas operations and management of MNEs are inevitably constrained by the institutional environment of the host country (Gu et al., 2021). The aforementioned bilateral economic contracts provide guidelines for the behavior of home governments and foreign investors, playing an important role in compensating for host-country institutional flaws, protecting investors' legitimate property rights, and mediating disputes. By signing legally binding economic contracts between sovereign governments, China's OFDI in specific host countries can be promoted (Borgatti and Halgin, 2011; Li et al., 2018).

3.2. BPR, Cultural Exchanges, and China's OFDI

According to transaction cost theory, all economic activities in the market need to pay certain transaction costs. The level of transaction costs required to conduct business activities in a particular host country is directly related to the investment costs and the ultimate level of return paid by MNEs. Good BPR can reduce the cost of legitimate transactions and thus help achieve the goal of maximizing corporate profits (Julio and Yook, 2016).

Specifically, good BPR can also promote cultural exchanges. On the one hand, good BPR provide an opportunity for the host country's people to understand Chinese culture and develop a good impression of China (Xie, 2016; Demir and Im, 2020). In recent years, with the popularity of cultural exchange activities such as Confucius Institutes and the Chinese Bridge around the world, the use of Chinese and Chinese characters has expanded. This has greatly improved the ease of communication between the Chinese people and the rest of the world, and narrowed the psychological distance between China and the relevant stakeholders in the host countries, thereby lowering the transaction costs caused by language barriers and cultural conflicts (Kang and Jiang, 2012; Akhtaruzzaman et al., 2017). On the other hand, a comprehensive and in-depth understanding of Chinese culture in various countries can assist the people and governments of the host countries in accepting MNEs from China, reducing the liability of foreignness and improving the legitimacy of overseas investment enterprises (Kang and Jiang, 2012; Lien et al., 2012; Parente et al., 2019), making the host country more willing to share relevant information with Chinese MNEs, thereby lowering the transaction costs caused by information collection.

Based on the above theoretical analysis, this paper proposes the following hypotheses:

Hypothesis 1: On the whole, good BPR help to promote China's OFDI in a given host country.

Hypothesis 2: Good BPR can promote China's OFDI in specific host countries

by facilitating the conclusion of economic contracts and enhancing cultural exchanges between the two countries.

In summary, the research framework of this paper is shown in Figure 1.

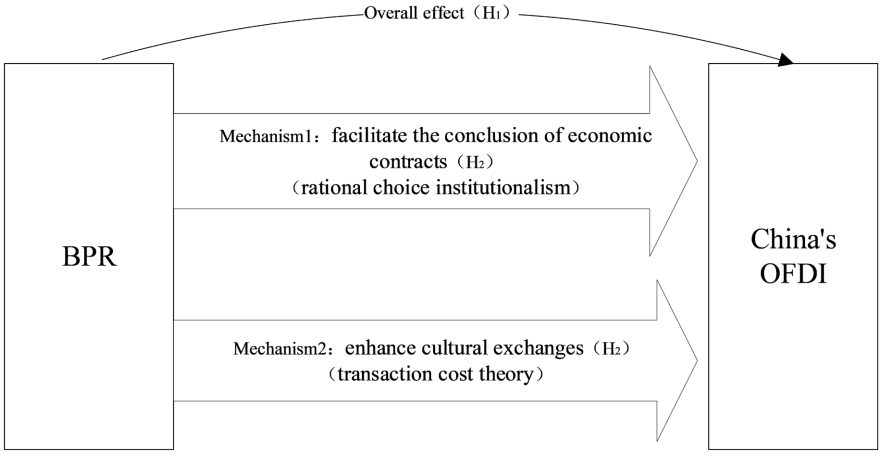


Figure 1. Research framework.

4. Research Design

4.1. Baseline Model and Estimation Strategy

This paper builds the following econometric model to test the impact of BPR on China's OFDI:

$$LnOfdStock_it = \beta 0 + \beta 1\ Political_it + \beta 2\ Control_it + \mu_i + \lambda_t + \varepsilon_it$$

where subscript i represents the host country and t represents the year. LnOfdStock_it is the explained variable, which represents the logarithm of China's stock of direct investment in host country i in year t. Political_it is the core explanatory variable, which represents a comprehensive index of BPR between China and host country i in year t, developed using PCA. Control_it is a vector of control variables that includes ten variables in total: eight characteristic variables of the host country and two correlation/linkage variables between China and the host country. μ_i and λ_t denote country and year fixed effects, respectively, and ε_it is a random error term. β1 is the coefficient of the core explanatory variable, which is expected to be significantly positive.

Among the host-country characteristic variables, the total GDP of the host country measures its market size; GDP per capita measures its economic development level; air traffic volume represents its infrastructure construction status; the total tax rate represents the level of tax burden faced by Chinese enterprises when carrying out investment activities in a particular host country; the export of ore and metal products measures the resource abundance of the host country; the inflation rate reflects its macroeconomic stability; the proportion of the tertiary industry measures its industrial structure; and commodity trade reflects the degree to which the host country's economy is open to the outside world. The linkage variables between China and the host country include geographical distance and

institutional distance, where the geographical distance between the two countries measures the iceberg cost of China's OFDI in a particular host country, and institutional distance measures the difference in institutional quality between China and the host country.

All econometric estimations and statistical tests in this paper are implemented using Stata 17 (StataCorp, 2021). To select the most appropriate estimator for our panel data, we perform a sequence of diagnostic tests. First, we apply the Breusch and Pagan (1980) Lagrange multiplier test to choose between the pooled OLS and the random-effects estimators, and an F test to examine whether all unobservable individual (country) effects are jointly zero, i.e., whether the fixed-effects specification is preferable to pooled OLS. Second, we apply the Hausman (1978) test to choose between the fixed-effects and random-effects estimators. As reported in **Table 5(b)**, the tests detect significant country-specific effects and reject the random-effects specification in favor of the fixed-effects model. Accordingly, we estimate the baseline specification using the two-way fixed-effects model that includes both country and year fixed effects (Baltagi, 2008; Hsiao, 2014). Because panel heteroskedasticity may bias the standard errors, we report robust (heteroskedasticity-consistent) standard errors throughout and confirm the presence of heteroskedasticity with the White test (**Table 4(c)**).

4.2. Sample and Variable Description

4.2.1. Sample Selection

BPR refer to a complete set of relationship systems formed by two countries based on their political interests in political life, which is reflected in political exchanges between countries. In international law, a sovereign state is an independent actor, enjoying rights and undertaking obligations, and is the basic actor in international political activities.

Since the subjects of BPR are usually sovereign states, this paper selects 194 sovereign states as the research sample. Although a large part of China's OFDI flows to the Cayman Islands, and other financial free ports and tax havens, because these areas are not sovereign states and the investment behavior of Chinese enterprises in these areas is largely motivated by tax avoidance and capital turnover, these regions do not constitute true investment behavior in the strict sense. Therefore, these regions are excluded from the current study sample.

4.2.2. Explained Variable: China's OFDI Stock

The data on the explained variable, China's OFDI stock, are sourced from the Statistical Bulletin of China's FDI. Since the investment stock data may have a value of zero, taking the logarithm directly will lead to the loss of sample size. This paper draws on the research method of Benassy-Quere et al. (2007) and transforms the explained variable as ln(OfdStock + 1).

4.2.3. Explanatory Variable: BPR

The core explanatory variable is BPR, which is measured by a comprehensive in-

dex constructed by combining nine indicators related to four groups—central government behavior, local government behavior, formal institutional arrangements, and informal institutional arrangements—using PCA. The nine indicators used to measure BPR are as follows: 1) sister cities (Friendship)—the more sister cities, the more frequent semi-official exchanges between the two countries; 2) whether the country is along the Belt and Road (OBOR); 3) whether it is a member country of the Asian Infrastructure Investment Bank (AIIB)—if the host country joins an international organization initiated by China, it indicates that BPR are better; 4) the duration of diplomatic relations (Diplomacy)—the longer the diplomatic relationship is established, the better the BPR are; 5) the number of leaders' visits (Leader meeting)—bilateral high-level visits are a signal of friendly BPR; 6) whether it is a socialist country or has implemented the socialist system (Socialism)—this variable depicts ideological similarity, since, as the largest socialist country in the world, China has been trying to maintain good traditional friendship with the present or former socialist countries; 7) the level of diplomatic relations (Diplomatic level)—the higher the diplomatic level, the deeper the exchanges between the two countries in various fields; 8) whether the Chinese ambassador to the host country enjoys the treatment of vice-ministerial level (Ambas)—as the promoter of friendly exchanges between the two countries, the level of the ambassador abroad can reflect the importance and particularity of bilateral diplomatic relations to a certain extent; and 9) whether the host country grants China visa-free qualification (Passport)—this can reflect the friendliness of the host country toward China to a certain extent.

Of course, using a single index to measure BPR may be one-sided. The advantage of using a PCA-synthesized comprehensive index is that it is more comprehensive and representative, which can overcome the above problems to a certain extent. Specific information on each of these indicators is given in Table 1.

Table 1. Indicator system for measuring China's political relations with host countries.

Variable	Definition	Data source
Categories: Central government behavior, formal institutional arrangement	Categories: Central government behavior, formal institutional arrangement	Categories: Central government behavior, formal institutional arrangement
OBOR	Countries along the "Belt and Road" are marked as 1, otherwise 0.	China's the "Belt and Road" official website
AIIB	If the country joins AIIB in t year, t year and subsequent years are marked as 1, otherwise 0.	AIIB official website
Diplomacy	A sovereign country that has not established diplomatic relations with China is 0; when a sovereign country establishes diplomatic relations with China, the time of diplomatic relations = current year − year of establishment of diplomatic relations + 1.	Official website of Ministry of Foreign Affairs of China

Continued

Socialism	If it is a socialist country or has ever practiced a socialist system, take 1, otherwise 0.	Official website of the Ministry of Foreign Affairs of China
Diplomatic level	All-weather strategic cooperative partnership = 11; Comprehensive strategic partnership of coordination = 10; Comprehensive strategic cooperative partnership = 9; Comprehensive strategic partnership = 8; All-round strategic partnership/strategic partnership = 7; Strategic partnership = 6; All-round partnership = 5; Comprehensive partnership = 4; Friendly cooperative partnership/important cooperative partnership/new type cooperative partnership = 3; Constructive cooperative partnership/strategic mutually beneficial relationship = 2; Diplomatic relations = 1.	Official website of the Ministry of Foreign Affairs of China
Ambas	The vice-ministerial treatment enjoyed by ambassadors abroad is marked as 1, otherwise 0.	Official website of the Ministry of Foreign Affairs of China
Passport	If the country has signed a visa-free agreement with China, the year in which the agreement entered into force and subsequent years will be marked as 1, otherwise 0.	Chinese Consular Service's official website
Categories: Central government behavior, informal institutional arrangement	Categories: Central government behavior, informal institutional arrangement	Categories: Central government behavior, informal institutional arrangement
Leader meeting	Total number of meetings between heads of state or government of the two countries in that year.	Official website of the Ministry of Foreign Affairs of China
Categories: Local government behavior, Semi-official institutional arrangement	Categories: Local government behavior, Semi-official institutional arrangement	Categories: Local government behavior, Semi-official institutional arrangement
Friendship	Total number of sister cities established by the year.	Official website of Ministry of Foreign Affairs of China

4.2.4. Control Variables

The control variables—the host country's GDP, GDP per capita, air traffic volume, and geographical distance between the two countries—are also transformed using the same procedure, that is, the natural logarithm is taken after (1 + original data). The control variables representing proportional relationships are not treated with a natural logarithm.

The definitions and data sources of all variables included in the benchmark regression model are given in Table 2.

The descriptive statistics for each variable are presented in Table 3. In addition to the mean, standard deviation, minimum, and maximum, we report the skewness, kurtosis, and the Jarque & Bera (1980) normality test statistic for each variable. These statistics are important because they reveal the distributional properties of the variables and inform our subsequent estimation and diagnostic strategy.

Table 4(a) reports the correlation coefficient matrix between the variables. We further carry out the variance inflation factor (VIF) test; the maximum VIF value is well below the conventional threshold of 10 (reported in Table 4(b)), indicating that there is no serious multicollinearity problem among the variables. Finally, we apply the White test for heteroskedasticity in the baseline regression; the results, reported in Table 4(c), indicate the presence of heteroskedasticity, which is why we estimate the model with robust (heteroskedasticity-consistent) standard errors.

Table 2. Variable definitions and data sources.

Variable	Definition	Data source
Explained variable	Explained variable	Explained variable
Ofdistock	Total amount of China's investment stock in the host country.	Statistical Bulletin of China's FDI
Explanatory variable	Explanatory variable	Explanatory variable
Political	A comprehensive index to measure the BPR was obtained by PCA.	Official website of Ministry of Foreign Affairs of China, China's "Belt and Road" official website, AIIB official website, Chinese Consular Service official website
Control variables	Control variables	Control variables
Gdp	GDP, at buyer's prices.	WDI database
Averagegdp	The gross domestic product divided by the number of people in the year.	WDI database
Airtransport	The host country's air traffic volume.	WDI database
Tax	Total tax rate measures the proportion of tax payable and mandatory payment to business profits after deduction and reduction.	WDI database
Mineral	Ore and metal exports as a percentage of the host country's total exports in that year.	WDI database
Inflationrate	Inflation, measured by the annual growth rate of the GDP implied price deflator.	WDI database
Tsp	Value added of tertiary industry as a percentage of GDP.	WDI database
Trade	The share of goods trade in the host country's GDP.	WDI database
Distance	The spherical distance between the capitals of the two countries.	CEPII database
Disinstitution	The average of six sub-indicators in the World Bank's WGI database is used to measure the quality of a country's institution. The absolute value of the institutional quality difference between China and the host country represents the institutional distance between the two countries.	WGI database

Table 3. Descriptive statistical results for variables.

Variables	N	Mean	SD	Min	Max	Skewness	Kurtosis	JB *P*-value
lnOfdistock	2826	8.78	2.82	0.00	15.87	−0.34	−0.19	0.000
Political	3298	0.00	0.50	−0.53	2.79	1.69	4.31	0.000
lnGdpnow	3173	23.97	2.39	16.72	30.69	−0.02	−0.27	0.008
lnAveragegdpnow	3173	8.48	1.53	4.74	12.15	0.08	−0.83	0.000
lnAirtransport	2363	10.23	2.13	0.00	16.21	−0.69	3.49	0.000
Tax	2599	44.00	30.70	7.40	339.10	4.99	33.76	0.000
Mineral	2530	8.42	14.56	0.00	86.42	2.77	7.74	0.000
Inflationrate	3159	5.87	8.83	−29.69	100.63	3.12	23.41	0.000
Tsp	2303	58.18	14.21	14.83	91.48	−0.31	−0.48	0.000
Trade	3064	66.30	35.44	12.98	343.48	2.06	8.24	0.000
Distance	3111	9.00	0.52	6.70	9.87	−1.38	3.17	0.000
Disinstitution	2956	0.78	0.64	0.00	2.53	0.88	−0.21	0.000

Table 4. (a) Correlation coefficient matrix; (b) Variance inflation factor (VIF) test; (c) White heteroskedasticity test.

(a)

	1	2	3	4	5	6	7	8	9	10	11
Political	1.00										
lnGdpnow	0.27	1.00									
lnAveragegdpnow	0.03	0.46	1.00								
lnAirtransport	0.06	0.68	0.43	1.00							
Tax	−0.13	−0.08	−0.25	−0.04	1.00						
Mineral	0.07	−0.10	−0.20	−0.16	−0.06	1.00					
Inflationrate	−0.07	−0.02	−0.25	−0.05	0.13	0.04	1.00				
Tsp	−0.06	0.08	0.55	0.25	−0.18	−0.13	−0.27	1.00			
Trade	0.03	−0.01	0.23	−0.04	−0.18	−0.12	−0.05	0.04	1.00		
Distance	−0.36	−0.18	−0.04	−0.07	0.15	0.09	0.00	0.12	−0.21	1.00	
Disinstitution	−0.14	0.32	0.68	0.33	−0.10	−0.12	−0.21	0.48	0.13	−0.06	1.00

Continued

(b)		
Variable	**VIF**	**1/VIF**
Political	1.308	0.765
lnGdp	2.689	0.372
lnAveragegdp	3.242	0.308
lnAirtransport	2.146	0.466
Tax	1.247	0.802
Mineral	1.131	0.884
Inflationrate	1.140	0.877
Tsp	1.600	0.625
Trade	1.283	0.779
Distance	1.466	0.682
Disinstitution	2.785	0.359
Mean VIF	1.800	-
Maximum VIF	3.24 (lnAveragegdp) < 10	-

(c)		
Test	**Statistic**	***P*-value**
White test (LM)	642.726	0.000
Breusch-Pagan (LM)	133.546	0.000

5. Empirical Results

5.1. Baseline Results

The regression results for the baseline model are shown in Table 5(a). It can be seen that, with and without the inclusion of control variables, good BPR have a positive effect on China's OFDI in a particular host country, which is significant at the 1% level. Thus, Hypothesis 1 is accepted.

5.2. Panel Cointegration and Granger-Causality Tests

Because our sample covers a long time span and we relate the level of China's OFDI stock to BPR, we test whether the variables share a stable long-run equilibrium relationship before interpreting the panel estimates. Following the recommendations of the reviewer, we apply a battery of panel cointegration tests: the Kao (1999) test, the Pedroni (1999, 2004) test, and the Westerlund (2005) test. The test statistics, reported in Table 5(b), reject the null hypothesis of no cointegration for the panel relationship between BPR and China's OFDI stock, supporting the

presence of a stable long-run relationship.

We further examine the direction of causality using the Dumitrescu and Hurlin (2012) panel Granger-causality test. The results, reported in **Table 5(c)**, indicate that BPR Granger-cause China's OFDI, which corroborates the causal interpretation of our baseline findings.

Table 5. (a) Baseline results; (b) Panel cointegration tests (Kao, Pedroni, and Westerlund); (c) Dumitrescu-Hurlin panel Granger-causality test.

(a)		
Variable	**(1)**	**(2)**
	LnOfdistock	LnOfdistock
Political	1.491***	0.806***
	(0.111)	(0.167)
lnGdp		0.909***
		(0.043)
lnAveragegdp		−0.391***
		(0.071)
lnAirtransport		0.046
		(0.036)
Tax		−0.014***
		(0.003)
Mineral		0.011***
		(0.003)
Inflationrate		0.021***
		(0.006)
Tsp		0.003
		(0.005)
Trade		0.010***
		(0.001)
Distance		−1.262***
		(0.189)
Disinstitution		0.538***
		(0.125)
Constant	6.775***	−2.467
	(0.222)	(1.854)
Year	Yes	Yes
Country	Yes	Yes
Observations	2826	1207
R^2	0.319	0.621

Note: *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively. Robust standard errors are reported in parentheses.

Continued

(b)

Cointegration test	Statistic	*P*-value	Conclusion
Kao (1999) ADF	t = −11.004	0.000	Reject no cointegration
Pedroni (2004) panel ADF	t = −5.754	0.000	Reject no cointegration
Westerlund (2005) ECM	t = −3.190	0.000	Reject no cointegration

(c)

Direction	Z-bar statistic	*P*-value	Conclusion
Political → lnOfdistock	47.526	0.000	BPR Granger-cause OFDI
lnOfdistock → Political	3.030	0.002	OFDI Granger-cause BPR

5.3. Discussion of Endogeneity Concerns

On the one hand, the quality of BPR may affect the overseas investment decisions of MNEs; on the other hand, if a country is economically highly dependent on China, its government may also maintain close political relations with China to avoid destroying existing economic relations. Thus, there may be reverse causality between BPR and China's OFDI.

This study first adopts the instrumental variable (IV) method to solve the potential endogeneity problem of BPR. The restoration of the People's Republic of China's legitimate seat in the United Nations (UN) in 1971 was an important event in China's political history, and China still maintains friendly BPR with the vast number of Asian, African, and Latin American countries that supported China's return to the UN. However, this historical event is unlikely to significantly change the current flow of China's OFDI. Thus, whether a particular host country supported China's return to the UN can be used as an IV to solve the potential endogeneity problem of BPR. Specifically, if the country supported China's return to the UN, it is recorded as 1; as −1 if it opposed it; and as 0 if it abstained, did not vote, or did not join the UN in 1971.

The results of the estimation performed using the two-stage least squares (2SLS) method are shown in **Table 6**. Consistent with our baseline findings, the coefficient of BPR (2.878) is positive and significant at the 1% level, as shown in column (2). At the same time, the *P*-value is below 0.05 and the KP F-statistic (38.934) is greater than the Stock-Yogo weak identification test critical value for a 10% maximal IV size (16.38), indicating that there is no problem of weak instrumental variables. Hence, the IV passes the relevance and weak-instrument tests.

In addition, we follow Wintoki et al. (2012) and Shen et al. (2022) and employ the dynamic system GMM estimator. Because changes in BPR could reflect dynamic endogeneity, the dynamic system GMM approach provides better results in our setting, as it incorporates dynamic and simultaneous endogeneity as well as unobservable heterogeneity. Specifically, we use the lag of the dependent vari-

able as a regressor. The findings are presented in Table 6: the coefficient of BPR (0.199) is positive and significant at the 1% level, as shown in column (3).

Table 6. Endogeneity checks.

Variable	(1)	(2)	(3)
	IV: The first stage	IV: The second stage	Dynamic GMM
	Political	LnOfdistock	LnOfdistock
Political		2.878***	0.199***
		(0.957)	(0.058)
LnOfdistockt-1			0.827***
			(0.013)
IV	0.079***		
	(0.013)		
Controls	Yes	Yes	Yes
Year	Yes	Yes	Yes
Country	Yes	Yes	Yes
Observations	1207	1207	1183
KP F-statistic	38.934		
P-value	0.000		

Note: *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively. Robust standard errors are reported in parentheses.

5.4. Robustness Tests

To confirm the reliability of the finding that good BPR promote China's OFDI in specific countries, this study tests the robustness from several perspectives.

First, considering that the flow data are dynamic, the explained variable OFDI stock data are replaced by OFDI flow data (OfdFlow_it). Since the data on OFDI flow contain zero and negative values, we also add 1 to the original data before taking the natural logarithm. The specific regression result is shown in column (1) of Table 7.

Next, this paper adds other characteristic variables of the host country to alleviate the problem of omitted variables, including technological endowment, openness to FDI, official exchange rate, institutional quality, and cultural distance between the host country and China. The relevant data are from the WDI database, the WGI database, and the Hofstede website. The specific regression result is shown in column (2) of Table 7.

Next, we use alternative measures of BPR. We first use voting similarity between China and the host country in the UN General Assembly (Vote) as the proxy variable of BPR (Fuchs and Klann, 2013; Duanmu, 2014; Li et al., 2018;

Malis, 2021). Specifically, the data mainly come from the latest research results of Bailey et al. (2017), which use the voting data of the UN General Assembly to calculate the ideal point of each country's political position, and further use the absolute value of the difference between the ideal points of each country to measure the political relationship distance between the two countries. Finally, this paper multiplies the absolute distance of the ideal voting point of the United Nations by −1 to form an indicator that characterizes BPR. The larger the index value, the closer the BPR between the two countries. The specific regression result is shown in column (3) of Table 7.

We also use the sub-indicators of the PCA to replace the core explanatory variable, such as the time of the establishment of diplomatic relations (Diplomacy), the leaders' visit (Leader meeting), sister cities (Friendship), and the hierarchy of diplomatic relations (Diplomatic level). The specific regression results are shown in columns (4)-(7) of Table 7.

Lastly, considering that although Pakistan and other countries are not socialist countries, they have maintained good BPR with China for a long time, the indicator of whether a country is socialist or has ever practiced socialism (Socialism) is deleted. The remaining eight sub-indicators are re-composed using PCA, and the original explanatory variable is replaced by the newly synthesized index (Political8) for regression. The specific regression result is shown in column (8) of Table 7.

The results in Table 7 show that the estimated coefficients of the explanatory variable are all significantly positive, which indicates that good BPR promote China's OFDI in specific countries. Our results remain qualitatively the same as the benchmark regression results.

Table 7. Robustness checks.

Variable	(1)	(2)	(3)	(4)
	LnOfdiflow	LnOfdistock	LnOfdistock	LnOfdistock
Political	0.418** (0.209)			
Vote			0.194* (0.110)	
Diplomacy				0.025*** (0.004)
Controls	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Country	Yes	Yes	Yes	Yes
Observations	936	374	1195	1207
R^2	0.469	0.738	0.618	0.629

Continued

Variable	(5)	(6)	(7)	(8)
	LnOfdistock	LnOfdistock	LnOfdistock	LnOfdistock
Leader meeting	0.558***			
	(0.074)			
Friendship		0.008***		
		(0.003)		
Diplomatic level			0.252***	
			(0.021)	
Political8				1.021***
				(0.116)
Controls	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Country	Yes	Yes	Yes	Yes
Observations	1207	1207	1207	1207
R^2	0.632	0.616	0.659	0.638

Note: *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively. Robust standard errors are reported in parentheses.

5.5. Mechanisms

After studying the effect of BPR on China's OFDI, this paper investigates the possible mechanisms behind it. The aforementioned theoretical analysis shows that good BPR may promote China's OFDI in a specific host country through two channels: the conclusion of economic contracts and the promotion of cultural exchanges.

To examine the role of the aforementioned influence mechanisms, this paper constructs and estimates the following mediation effect model:

$$\text{Mediator_it} = \alpha 0 + \alpha 1\ \text{Political_it} + \alpha 2\ \text{Control_it} + \mu_i + \lambda_t + \varepsilon_it$$

where subscript i represents the host country and t represents the year, and ε_it is a random error term. The model indicates the influence of BPR on the mediation variables. The corresponding control variables (given in Table 2) and fixed effects are included, and the model is estimated with robust standard errors. If α1 is significant, the mediation effect is established.

In the model, Mediator_it represents the mediation variable, which contains four indicators in total, including the economic contracts signed between China and the host country—overseas industrial parks, bilateral investment treaties (BIT), and double taxation avoidance agreements—as well as the number of Confucius Institutes in the host country, which measures the depth of cultural exchanges between the two countries. To ensure the stability of the data, the number of over-

seas industrial parks and Confucius Institutes has been treated as earlier, i.e., the natural logarithm of the original values is taken after adding one (ln(1 + original data)). Mediation variable definitions and data sources are given in Table 8.

Table 8. Mediation variable definitions and data sources.

Variable	Definition	Data source
Indpark	The total number of industrial parks that existed in the country that year.	Official website of Ministry of Commerce of China
BIT	If the country has signed BIT with China, it will be marked 1, otherwise 0.	Official website of Ministry of Commerce of China
Taxyear	If the country has a double taxation avoidance agreement with China and the agreement is in force, the time of entry into force = current year − year of entry into force + 1; 0 if the country has not signed the agreement with China or the agreement is not in force.	Official website of The State Administration of Taxation of China
Confu	Number of Confucius Institutes in the host country that year.	Annual Development Report of Confucius Institutes

The mechanism analysis results are presented in Table 9. The results in columns (1)-(3) show that good BPR can significantly promote the establishment of overseas industrial parks and the signing of BITs as well as double taxation avoidance agreements. The result in column (4) shows that good BPR can also promote cultural exchange as measured by the number of Confucius Institutes, which verifies Hypothesis 2.

Table 9. Mechanism analysis results.

Variable	(1)	(2)	(3)	(4)
	Indpark	BIT	Taxyear	Confu
Political	0.332*** (0.037)	0.112*** (0.040)	4.306*** (0.480)	0.116*** (0.046)
Controls	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Country	Yes	Yes	Yes	Yes
Observations	1275	1275	1275	1275

Note: *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively. Robust standard errors are reported in parentheses.

Moreover, to test the robustness of the above empirical results, this paper also uses the Sobel test and a bootstrap method with 500 resamples to determine whether the mediation effect is established. We find that the results in Table 9 are robust.

5.6. Heterogeneity Analysis

5.6.1. Heterogeneity Analysis Considering the Economic Development Level of the Host Country

Given the differences in economic structure, institutional environment, and foreign investment policy between developed and developing countries, the influence of BPR on China's OFDI may be correlated with the host country's economic development. Using the World Bank's classification criteria for world economic entities, this paper divides the overall sample into developed and developing countries and tests them separately. The results are shown in columns (1) and (2) of Table 10. Further, this paper also uses the Fisher combinatorial test to compare the differences in the regression coefficients of the two sets of samples.

The regression results show that the impact of BPR on China's OFDI is greater in developed countries. The theoretical interpretation of this empirical result can be obtained from ambidexterity theory—China's OFDI has reverse outward investment flowing to developed countries and forward outward investment flowing to other developing countries. Thus, the determinants of China's OFDI to developed and developing countries are dualistic (Rugman and Li, 2007; Rui and Yip, 2008; Kunychka et al., 2023). On the one hand, when Chinese MNEs invest in developed countries, they face higher entry barriers and more fierce competition from local firms. On the other hand, the International Centre for Settlement of Investment Disputes (ICSID) has also suffered from issues such as a lack of fairness in arbitration results, low transparency in trial procedures, and favoritism toward developed countries (Carril-Caccia, 2020); therefore, for Chinese MNEs, their legitimate rights and interests are sometimes not effectively protected. In the process of reverse outward investment, Chinese MNEs need to make use of good BPR to compensate for their ownership, internalization, and location disadvantages (Rui and Yip, 2008; Kolstad and Wiig, 2012; Piperopoulos et al., 2018). Developing countries have always been good friends with China, are more welcoming to investment projects from China, and tend to offer more favorable investment policies to Chinese MNEs, which to some extent compensates for the lack of institutional environment in developing countries. Moreover, compared with the local enterprises of developing countries, Chinese enterprises have certain competitive advantages in technology level and management experience. In summary, Chinese MNEs may need the government to escort them with the help of good BPR when carrying out investment activities in developed countries.

5.6.2. Heterogeneity Analysis Considering Whether the Host Country Borders China

Given that the impact of BPR on China's OFDI may also be related to the geograph-

ical location of the host country, this paper divides the overall sample into two groups according to whether the host country has a border with China, and then tests them separately. The results are shown in columns (3) and (4) of Table 10.

The regression results show that BPR have a significant positive impact on China's OFDI in the sample of host countries not bordering China. However, in the bordering host-country sample, the estimated coefficient of BPR is negative and not significant. Furthermore, the result of the Fisher combinatorial test shows that there is a significant difference between the regression coefficients of the two groups.

This result may be interpreted as follows. On the one hand, non-bordering host countries are usually farther away from China, so the iceberg cost of OFDI by Chinese MNEs in these countries is higher and the problem of information asymmetry is more serious. On the other hand, compared with neighboring host countries, host countries that do not border China tend to have lower similarities in language, culture, customs, and practices. Therefore, the cultural distance and psychological distance between the home country and the host country will be greater, so Chinese MNEs rely more on the positive role of good BPR when they invest in countries that do not border China.

Table 10. Heterogeneity analysis results (economic development level of the host country/border).

Variable	(1) Developed	(2) Developing	(3) Border	(4) Non-border
	LnOfdistock	LnOfdistock	LnOfdistock	LnOfdistock
Political	1.213***	0.569***	−0.162	0.665***
Political	(0.340)	(0.173)	(0.210)	(0.208)
Controls	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Country	Yes	Yes	Yes	Yes
R^2	0.744	0.705	0.906	0.623
Observations	469	738	81	1126
P-value of Fisher combinatorial test	0.073	0.073	0.014	0.014

Note: *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively. Robust standard errors are reported in parentheses.

5.6.3. Heterogeneity Analysis Considering the Geographical Location of the Host Country

This paper groups the whole sample according to the continent where the host country is located. Columns (1)-(6) of Table 11 show the regression results of the sample countries in Asia, Europe, Africa, North America, South America, and

Oceania, respectively.

It can be seen from the regression results in Table 11 that BPR have the greatest impact on China's OFDI in Asian and European countries, which may be due to China's location in the Eurasian continent and its closer geographical relationships with Asian and European countries. The influence of BPR on China's OFDI in North America and South America is second, while in Africa and Oceania, there is a deviation between BPR and China's OFDI, which indicates that China's OFDI in Africa and Oceania may be mainly driven by economic favorable factors such as resource endowment and market potential (Bakar et al., 2022).

Table 11. Heterogeneity analysis results (geographical location of the host country).

Variable	(1)	(2)	(3)	(4)	(5)	(6)
	LnOfdistock	LnOfdistock	LnOfdistock	LnOfdistock	LnOfdistock	LnOfdistock
Political	0.797***	1.914***	−0.712**	2.114*	1.088**	−0.295
Political	(0.232)	(0.426)	(0.335)	(1.179)	(0.503)	(0.762)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes
Country	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.68	0.758	0.689	0.658	0.834	0.994
Observations	327	328	305	88	121	38

Note: *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively. Robust standard errors are reported in parentheses.

5.6.4. Heterogeneity Analysis Considering the Institutional Quality of the Host Country

In this paper, the institutional quality of the host country is measured by the arithmetic mean of the six sub-indicators of the World Bank WGI index, and grouped regression is carried out based on the quartiles of the institutional quality of host countries. The results are shown in Table 12.

From the regression results in Table 12, it can be seen that good BPR have a significant positive impact on China's OFDI in the host-country sample groups whose institutional quality lies within the ranges of 0% - 25% and 75% - 100% of the total sample. The possible explanation of this result is twofold. On the one hand, in host countries with poor institutional quality, good BPR can form a beneficial supplement to the existing institutional environment and thereby promote China's OFDI; this is consistent with recent evidence that weak institutions and corruption can deter investment, which BPR help to offset (Rottig et al., 2019; Batrancea et al., 2023b). On the other hand, most host countries with good institutional quality are developed countries, and good BPR can make up for the deficiencies of Chinese MNEs in terms of technology level and management experience, thereby enhancing their competitive advantage.

Table 12. Heterogeneity analysis results (institutional quality of the host country).

Variable	(1) 0% - 25%	(2) 25% - 50%	(3) 50% - 75%	(4) 75% - 100%
	LnOfdistock	LnOfdistock	LnOfdistock	LnOfdistock
Political	0.638*	0.260	−0.184	1.779***
Political	(0.366)	(0.263)	(0.458)	(0.387)
Controls	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Country	Yes	Yes	Yes	Yes
R^2	0.704	0.747	0.674	0.771
Observations	217	330	272	388

Note: *, **, *** denote statistical significance at the 10%, 5%, and 1% level, respectively. Robust standard errors are reported in parentheses.

6. Conclusions and Policy Implications

Using country-level data from 2007 to 2023, this study investigates the effect and mechanism of BPR on China's OFDI. The key findings are the following. First, good BPR can significantly promote China's OFDI in the host country, and this conclusion remains valid after eliminating the endogeneity problem and performing a battery of robustness checks, including panel cointegration and Granger-causality tests. Additionally, the results of the mechanism tests show that good BPR promote China's OFDI in specific host countries through the conclusion of economic contracts—overseas industrial parks, BITs, and double taxation avoidance agreements—as well as higher cultural exchanges. This paper further finds that BPR have a more significant impact on China's OFDI in developed countries, non-neighboring countries, Asian and European countries, and countries whose institutional quality lies in the top and bottom quartiles of the total sample.

The study has some policy implications. First, the Chinese government should continue to pursue extensive country diplomacy with Chinese characteristics to achieve national rejuvenation, rely on China's advantages in the large market, actively promote international cooperation—especially the signing of relevant economic contracts and cultural exchanges with other countries—and set up a good national image. In addition, the Chinese government also needs to safeguard the legitimate rights and interests of its own MNEs. Second, it is necessary for MNEs to closely watch the world political situation and understand the important impact of political factors on OFDI. Furthermore, MNEs should improve their risk management capabilities to minimize their losses when BPR are tense. Lastly, other developing countries in the world, including China, which are striving to attract FDI because of the positive effects of FDI on the host country's economy, should strengthen political mutual trust, economic integration, and people-to-people exchanges with host governments, further promote friendly exchanges and cooper-

ation, realize mutual complementarity and win-win outcomes, and create a safe and stable external environment for MNEs' overseas investment. Overall, this study provides meaningful insights for policymakers and helps to promote the economic development of emerging economies as well as the recovery of the world economy in the post-pandemic era.

The paper also has implications for future research. First, future studies can use firm-level data and investigate the heterogeneity of the impact of BPR on different types of MNEs and the strategic choices of MNEs to deal with political risks. Second, future research can examine the impact of specific political events, such as wars, leadership changes, and territorial disputes, on OFDI. Lastly, it is also important for future analysis to explore the new features of the impact of BPR on OFDI in the context of the rise of the anti-globalization movement.

Author Contributions

Yaru Yang: Conceptualization, Methodology, Software, Writing—Original Draft; Xi Cai: Formal analysis, Writing—Review & Editing.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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