

Complex Dependence in Foreign Direct Investment: Network Theory and Empirical Analysis *

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Abstract

We develop theory that accounts for complex dependence in foreign direct investment (FDI) relationships. Conventional theories of FDI focus on firm-, industry-, country-, or dyad-level characteristics to account for cross-border capital movements. Yet, today's globalization is characterized by the increasing fragmentation and dispersion of production processes, which gives rise to complex dependence among production relationships. Consequently, FDI flows should be represented and theorized as a network. Specifically, we argue that FDI flows are reciprocal and transitive. We test these hypotheses along with conventional covariate determinants of FDI using an exponential random graph model (ERGM) for weighted networks. We find that FDI networks exhibit strong reciprocity and transitivity. Our network approach to studying FDI provides new insights into global investment flows and their political and economic consequences. In addition to our substantive findings, we offer a broad methodological contribution by introducing the ERGM for count-weighted networks in political science.

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