Dear Editors,

We are submitting our manuscript, entitled “Complex Dependence in Foreign Direct Investment: Network Theory and Empirical Analysis,” to the *American Journal of Political Science* for consideration. We study the structure of the international network of foreign direct investment (FDI). The existing FDI literature focuses on examining the role of country- or dyad-level political and economic exogenous covariates in affecting FDI flows, while overlooking the complex dependencies that are likely to characterize the FDI network. We argue that FDI flows can arise endogenously from its network structures. Two network structures – reciprocity and transitivity – are important to account for the pattern of cross-border FDI flows. First, reciprocity arises from the fact that FDI represents an oligopolistic expansion strategy of MNCs and the fact that host governments tend to use a principle of reciprocity to regulate FDI inflows. Second, the expansion of global supply chains and the diffusion of preferential trade agreements (PTAs) drive the transitivity/clustering of investment activities.

To test our arguments, we use the count exponential random graph model (ERGM). Utilizing bilateral FDI data from UNCTAD, we find strong evidence that FDI inflows are reciprocal and transitive. We further show that ignoring high-order network structure variables can lead to biased estimates in standard panel regression models.

Our paper makes two important contributions to the literature. First, as far as we know, this is the first study of FDI to take a network approach. We demonstrate that FDI flows can be shaped by the structures of interdependence. Furthermore, we show that adding network dependencies to the covariate-based model of FDI offers a robust improvement in model fit. We believe our network approach has broad implications for studying other cross-border economic movements such as aid, goods, services, and people, which tend to exhibit structural characteristics as well. Yet, existing empirical studies rarely account for the network structures of these global economic exchanges. Second, we make a methodological contribution by introducing the count ERGM in political science. To our knowledge, this model has not yet been applied in political science research. The count ERGM can be applied to any network in which ties are count-weighted, and therefore represents a valuable tool for political scientists, who regularly study networks with count-weighted ties.

Finally, we believe it would be helpful to suggest some potential reviewers. Professors Olga Chyzh (Iowa State University), Thomas Oatley (Tulane University), Sarah Bauerly Danzman (Indiana University), and Rachel Wellhausen (UT Austin) will be appropriate reviewers for our manuscript given their expertise in either network analysis or FDI.

Thank you very much in advance for considering our manuscript for publication in the *American Journal of Political Science*. If you have any further questions, please feel free to contact us.

Sincerely,

John Schoeneman

Boliang Zhu

Bruce Desmarais