The Application of CAGE Distance Framework on Bilateral Foreign Direct Investment Inflows to OECD and Non-OECD Asian Countries

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The purpose of this study is to assess why some home countries find some host countries and regions more attractive for Foreign Direct Investments than others and whether cultural, administrative, geographical, and economic distance play a role in separating successful countries from others with special reference to The Organization for Economic Cooperation and Development (OECD) countries versus Non-OECD Asian Countries. The study included a subsample analysis of four Asian sub-regions (East, Southeast, South, and Middle East), which helps to shed light on how the effects of multiple distance dimensions alter according to structural differences in different Asian sub-regions. The panel data analysis includes bilateral flows from 8 major OECD investor countries to 17 non-OECD Asian countries and 12 OECD countries. The balanced panel sample consists of 232 country pairs and data from 2013 to 2019, for seven years and 1624 observations. The estimation techniques used are Pseudo Poisson Maximum Likelihood Estimator and Ordinary Least Square.This study contributes to the existing literature by combining multiple dimensions of the CAGE framework with the Augmented Gravity Model and addressing the literature gap of what is the role of multiple distance dimensions for location attractiveness. Our findings suggest that developed nations prefer to invest in administratively, geographically, and economically closer countries and multiple distance dimensions negatively impact bilateral Foreign Direct Investments between country pairs. Bilateral Foreign Direct Investment flows of developing nations are more vulnerable to the negative impact of distance dimensions than developed nations. The impact of cultural distance is insignificant, proving that the importance of cultural distance is lessening with globalization and the development of technology. Finally, due to structural disparities at the sub-regional level in Asia, several distance dimensions have different implications on bilateral inward Foreign Direct Investments. Our findings suggest improving government institutions' quality and political stability. GDP growth and rise in per capita GDP/income, improvement of transportation and communication infrastructure, and getting into Free Trade Agreements may enable inward Foreign Direct Investments.

Keywords: FDI, CAGE distance dimensions, Augmented gravity model, Asia, PPML