A study of language effects on inward FDI flows in Southeast Asia

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Preface

Writing this master thesis has been the biggest challenge in our time as students. It has at times been hugely frustrating, but at other times, very rewarding.

Foreign direct investment has been one of the most important factors in internationalization and economic growth over the last few decades, and it has been very interesting to research a few of the determinants that impact FDI inflow. Our choice of topic is based on our interest in international economy, as well as Thomas’ experiences as an intern in Indonesia last semester. After several discussions with ourselves and our supervisor we concluded that FDI in Southeast Asia would be an interesting topic for us. Our knowledge on FDI before starting to write this thesis was very limited and finding the most relevant theories and data to use has been challenging. But with a lot of effort and the help of professionals, it has been both interesting and exciting to work on this thesis.

In the end, we would therefore like to offer our gratitude to Professor Trond Randøy for his encouraging and constructive support this semester. We also owe him big thanks for providing us with the Ethnologue datasets.

Kristiansand, June 3rd, 2019

Thomas Botnen Bryntesen
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Abstract

This master thesis explores how language might affect the yearly flow of foreign direct investment (FDI) towards five Southeast Asian countries: Indonesia, Malaysia, Philippines, Singapore and Thailand. This is a research area that has been quite unexplored, and we find it interesting to put forward some hypotheses to observe if there exist such effects or not. By using multiple regression analysis on a relevant dataset, three main hypotheses are tested:

- Countries in which a global language holds an official status will contribute more FDI than other countries.
- Countries that share a global language with a FDI recipient country will contribute more FDI than other countries.
- Countries that are at a greater linguistic distance from the FDI recipient countries will contribute less FDI than other countries with a smaller linguistic distance.

In general, our analysis does not support any of the hypothesis. One exception is that linguistic distance from the recipient’s major language to English influences the yearly FDI flow. Other determinants like GDP and colonial ties are on the other hand more significant to explain FDI.

June 3rd, 2019

**Keywords:** Foreign Direct Investment, Language, Southeast Asia.
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1.0 Introduction

Foreign direct investments (FDI) have significantly changed the economic landscape of the world in the last decades and has become an integral part of the globalization process (Du, Lu, & Tao, 2012). Attracting FDI is a big priority for most countries, especially developing ones. Which factors determines where FDI go? This question has intrigued researchers all over the world for some time now, and there is still much debate about which factors and policies that most influence where multinational companies (MNCs) choose to establish themselves. Factors such as agglomeration economies, market size, taxes, trade policies, exchange rate and interest rate policies, production costs, infrastructure, etc, as well as institutional factors such as contract enforcement, property rights protection, government efficiency, and government intervention have all been said to affect FDI locational choice (Du et al., 2012).

We argue that that there are a number of factors that suggest that language usage is associated with FDI flows. Carrying out an FDI is a very extensive process, that involves a large amount of people. During this process, there is thousands of messages that needs to be delivered between employees in the investor’s home country, but also between employees in different countries. If the home and host country do not share a language, and/or if the company does not have an official corporate language, complications can arise, as well as costs (Slangen, 2011).

Existing literature on FDI has usually disregarded the potential influence of language and linguistic distance between the home and host country on the choice between greenfield or de novo investment and acquisitions (Vidal-Suárez & López-Duarte, 2013). Based on articles and literature we have read; we believe this is also the case for the potential effect language has on the amount of FDI a host country receives.

Asia has emerged as one of the largest FDI recipient regions in the world, and Southeast Asian countries such as Singapore and Indonesia have been among the top 20 countries for FDI inflows in recent years (UNCTAD, 2018). The languages in Southeast Asia are significantly different from the languages located in Europe and the US, which includes several of the biggest contributors to FDI in the world. With English and Mandarin being major languages in countries such as Malaysia and Singapore, and countries such as Indonesia and Thailand not having a decent understanding of either of those two languages, we see
Southeast Asia as a good location to study the impact of language on FDI. Southeast Asia is also a region that attracts FDI from a wide variety of sources. According to our data, Japan, the US, Netherlands, China, as well as other Southeast Asian countries are the largest contributors to FDI in Southeast Asia. The mentioned countries, as well as Malaysia, are for instance the largest contributors to FDI in Indonesia. This gives us a rich variety of languages and linguistic distances to compare and is another reason for why Southeast Asia an interesting region to study.

In this thesis, we will investigate the effect of language on FDI is Southeast Asia. More specifically, we will investigate if differences in language and linguistic distance influence inward FDI in the five biggest economies of Southeast Asia: Indonesia, Malaysia, Philippines, Singapore, and Thailand.

To the best of our knowledge, there has not been done an extensive research on language effects on FDI in Southeast Asia before. As Golesorkhi et al. (2019) points out, previous research has mostly focused on English without comparing it to other languages. We chose to add Mandarin to our data, as this is a language used in several Southeast Asian countries, especially in business settings. Our last contribution is that we have chosen to focus on emerging markets, and not highly developed markets as much previous research has done. Due to their colonial past, emerging markets often have several official languages and thus a rich language environment. The competence in English or other non-native global languages tend to be low in emerging countries, and local language knowledge may therefore be very important (Golesorkhi et al., 2019).

Content outline: In chapter 2, we present literature on FDI in general, Southeast Asia, as well as literature on language and other factors affecting FDI. In chapter 3, we describe relevant theory and our hypotheses. In chapter 4 and 5, we describe the methodology, database and chosen analytical variables. In chapter 6 and 7, we present and discuss the analytical results, while we in chapter 8 summarize, draw conclusions and briefly make suggestions for future research.
2.0 Literature Review

2.1 FDI Concept and Basic Forms

FDI is one of the three components of international capital flows, besides portfolio investments and other flows like bank loans. There are several definitions of FDI, but the OECD Benchmark Definition of Foreign Direct Investment (2008) sets the world standard for direct investment statistics.

The OECD (2008, 1) defines direct investment “as category of cross-border investment made by a resident in one economy (the direct investor or parent) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise or affiliate) that is resident in an economy other than that of the direct investor”. The motivation of the direct investor to carry out an FDI is to establish a strategic long-term relationship with the direct investment enterprise. And to ensure an important degree of influence by the direct investor in the management of the direct investment enterprise (OECD, 2008).

FDI involves both the initial transaction between the two entities and all succeeding transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities. The significant degree of influence is evidenced when the direct investor controls at least 10% of the voting power of the direct investment enterprise (UNCTAD, 2007).

2.2 FDI vs FPI

Direct investors intend to have long-term relationships with foreign companies by investing sufficient financial capital in the equities of those companies. This will enable them to have a significant influence on their management (UNCTAD, 2009). Unlike direct investment, portfolio investment does not offer control over the business entity in which the investment is made.

Foreign portfolio investment (FPI) refers to investing in the financial assets of a foreign country, such as stocks or bonds. If there is a drop in confidence in the enterprise, currency, government or economy, the portfolio investment may be liquidated. Portfolio investors are primarily interested in the rate of return on their investments. Other reasons motivating portfolio investors to invest in another country could be capital appreciation or the desire to
diversify investments with respect to currency, country and industry. Investors in portfolio may have a long-term outlook, but they have no intention of establishing a relationship with the management of the foreign entities. The control over the business entity and establishing a long-term relationship is the key difference between FDI and FPI (UNCTAD 2009).

2.3 Who is the Direct Investor?
According to OECD (2008) a direct investor could be classified to any sector of the economy and could be any of the following:

i) An individual
ii) A group of related individuals
iii) An incorporated or unincorporated enterprise
iv) A public or private enterprise
v) A group of related enterprises
vi) A government body
vii) An estate, trust, or societal organisation
viii) Any combination of the above

2.4 FDI Components
According to OECD, foreign direct investment (FDI) flows record the value of cross-border transactions related to direct investment

“Financial flows consist of equity transactions, reinvestment of earnings, and intercompany debt transactions” (OECD Data). Explanations for why poor countries receive less capital can be many. For instance, capital flows to developing countries may be blocked by moral hazard and lack of collateral (e.g. Gertler & Rogoff, 1990), a history of series default (e.g. Reinhart & Rogoff, 2004), or due to informational frictions (e.g. Portes & Rey, 2005). Papaioannou (2009) suggests that there is a significant correlation between capital flows and institutional quality. However, well-functioning institutions and foreign investment may be driven by another factor, such as trust or social capital (Guiso, Sapienza, & Zingales, 2004, 2006). As mentioned by Welch, Welch, & Piekkari (2005), trust and close social-contacts are difficult to establish between individuals that don’t speak the same language. Hau (2001) finds that foreign traders make less profit than German traders when operating on the German stock market. He also finds weak evidence that German-speaking traders perform better than their colleagues that don’t speak German.
“Outward flows represent transactions that increase the investment that investors in the reporting economy have in enterprises in a foreign economy, such as through purchases of equity or reinvestment of earnings, less any transactions that decrease the investment that investors in the reporting economy have in enterprises in a foreign economy, such as sales of equity or borrowing by the resident investor from the foreign enterprise” (OECD Data). Looking at the outward FDI history for Malaysia, the emergence of attractive FDI destinations such as China, India, and transitional economies in Indochina (Goh, Wong, & Tham, 2013), as well as larger foreign market size was key factors of outward FDI (Goh & Wong, 2011). Income, real effective exchange rate and trade openness were all also positively related to Malaysian outward FDI (Kueh, Puah, & Apoi, 2008). Anwar (2009) found that Indian outward FDI to developing countries was often in search of market access and asset acquisition. However, it was also more frequent in countries where English is spoken. Chinese diaspora played a big role in China’s economic take-off and economic development, as a large portion of FDI in China has come from Chinese investors based abroad (Kuang, 2008). Language may not be the most important factor affecting outward FDI, but it has empirical support of having some effect.

“Inward flows represent transactions that increase the investment that foreign investors have in enterprises resident in the reporting economy less transactions that decrease the investment of foreign investors in resident enterprises. FDI flows are measured in USD and as a share of GDP” (OECD Data). Language seems to have a large impact on trade. Head, Ries, & Wagner (1997) find that trade significantly increase between Canada and the source countries of the immigrants. A common language and colonial ties play an important role in trade, especially in differentiated products (Rauch, 1999). When it comes to FDI on the other hand, there was no significant link between foreign investment and the number of Asia-Pacific immigrants in Canada (Baker & Benjamin, 1997). Information sharing and contract enforcement are undoubtedly important in investment decisions (Gao, 2003). Information on suppliers, distributors, material costs, and several other market conditions is crucial to analyse the future profitability of an investment. Before investing, a potential investor would want to make sure that agreements will not be violated and that his/her legal rights are protected. Investors can face extra difficulties if they are not familiar with the host country’s language, regulations and customs.
In the period of 1984-1997, Hong Kong and Macau combined, Taiwan, Singapore, and Thailand were all among the top 10 largest FDI contributors to China. These are all countries which have a large population of ethnical Chinese and a large contingent of Chinese speakers. This suggests that language affects inward FDI in China. According to Gao (2003), can geographical proximity, labour costs, and market potential also explain their FDI in China.

2.5 Methods of FDI

FDIs can be implemented in two ways depending on the market entry purpose: as a greenfield investment or brownfield investment (mergers and acquisitions) (Bayar, 2017).

Brownfield investments consist of merging with or buying an existing facility. The company chooses to purchase an already built production facility. While greenfield investments include constructing new non-existent facilities from the ground up, and is used when a company want to achieve high level of control over the business operations. The greenfield investment is also the riskiest form of foreign direct investments, due to potentially high market entry cost and high fixed costs (Bayar, 2017).

A horizontal foreign investment is when a business expands its domestic operations to a foreign country. These multinationals firms produce the same good or services in multiple countries and serves the local market from local production. The main motivation for horizontal FDI is to avoid transportation costs or to get access to a foreign market. If the trade-off between additional fixed costs from establishing a foreign production instead of serving the market by exports is positive, then the multinational enterprise will conduct a horizontal FDI (Protsenko, 2003).

Vertical FDI takes place if the MNE expands into a foreign country by moving to a different level of supply chain. The production chain consists of several stages, and the motivation to split up production is to exploit differences in relative factor costs. This can be to shift labour-intensive production stages to a country with low labour cost. Like horizontal investment, the decision to conduct vertical FDI can be described as a trade-off between costs and benefits (Protsenko, 2003).
2.6 FDI in Southeast Asia

Over the past decades, Asian emerging economies have been experiencing high rates of economic growth, with substantial involvement of FDI (Bende-Nabende, Ford, & Slater, 2002). FDI has, and continues to play a role in Asian development (Lipsey & Sjöholm, 2011). China is one of the largest FDI recipients in the world, and Japan one of the biggest contributors. Singapore has based a lot of their development strategy on attracting FDI from MNCs.

Carrying out an FDI over long distance is complicated and requires great coordination. Goods and services need to be transported internationally between home and host countries, and coordination and supervision requires visits to and from subsidiaries and a steady flow of information. International operations require a lot from the host country’s economic environment, and host countries differ in their ability to attract and handle FDI (Lipsey & Sjöholm, 2011). It is therefore expected that the amount of FDI inflow varies greatly among the Asian countries. For instance, FDI inflows to Indonesia have been relatively small, and lower than what can be expected from the country’s size.

2.6.1 Why has so much FDI gone to Southeast Asia
Openness to FDI is an essential criterion to attract FDI inflows, and Asian countries have not always been open to this. For a long time, developing countries used import substitution to drive growth of domestic firm. A part of this strategy was to limit the access of foreign MNCs to the domestic market and to use other means to obtain foreign technology (Lipsey & Sjöholm, 2011). Japan is a prime example on how to use this strategy successfully.

Other Asian countries have used a strategy that more heavily relies on FDI inflows. Singapore has thrived using this approach, and their success have inspired other Asian countries to loosen their trade politics and encourage the entrance of foreign MNCs. The FDI regimes still differ from country to country in Asia, but all countries have become more open to FDI over time (Brooks & Hill, 2004). The reason for becoming more open to FDI varied around Asia. In certain countries, it was an attempt to increase domestic savings, in other countries it was to encourage technology transfer or to gain access to international markets for exports (Dobson, 1997).
In addition to being open to FDI inflows, the host country also needs to provide an economic environment that is attractive to MNCs. World Bank provides a yearly ranking of the ease of doing business in different countries and regions. Southeast Asia ranks as number two among the developing regions, and the margin by which they lead the two trailing regions (Latin America and Africa) has increased recently (Lipsey & Sjöholm, 2011).

A reason for the economic development in Asia that has been highlighted is their recent participation in the global production networks of MNCs from developed countries, especially Japan and the US (Athukorala, 2005; Zhou & Lall, 2005). MNCs identify different parts of the value chain they can outsource to Asian countries to increase efficiency and reduce costs. The most important sector in international production networks has been electronics. East Asian countries were seen as prime locations for MNCs looking to move production already in the 60s and 70s. Texas Instruments and National Semiconductor started production in Singapore in the 60s (Sjöholm, 2003a). They were attracted by the subsidies, as well as the efficient bureaucracy, which enabled Texas Instruments to start production in Malaysia just 50 days after their investment decision (Huff, 1994). Networks like these have over time spread to countries such as China, Thailand, Vietnam, and the Philippines (Lipsey & Sjöholm, 2011).

The East Asian region have for several decades been viewed superior to other developing regions in the eyes of MNCs, and in respect of the characteristics that are said to attract FDI inflows. This has been the case for factors such as the education of the labour force, the atmosphere for conducting business, and the willingness to make changes in institutions to attract foreign MNCs. This has resulted in a higher presence of foreign MNCs in East Asia than in other developing regions in the world (Lipsey & Sjöholm, 2011).

2.7 The Advantages and Disadvantages of FDI in the Host Country

It is widely considered in the scientific literature that foreign direct investment can improve a country’s economic growth and is one of the most important factors of economic stimulus. Countries seek to attract as much foreign direct investment flows as possible because of their various benefits to economies. This is especially important in the developing world and in those countries that are unable to raise funds for major projects themselves (Barkauskaite & Naraskeviciute, 2016).
According to Barkauskaite & Naraskeviciute (2016) FDI have several benefits on the host country, as it helps create new jobs and reduce the unemployment rate. The wages paid by international firms are often higher than those by domestic companies, as well as the workforce and the quality of work become better. FDI also contributes to the diffusion of technology, human capital formation, international trade integration, job creation, and increases business development.

To obtain all the benefits from foreign investment, the country should have a favourable business environment. This stimulates not only domestic but also foreign investments. A favourable business environment contributes to the innovation, skills and competitive business environment. FDI can also help the improvement of the environment and social condition in the host country by relocating ‘cleaner’ technology and guiding to more socially responsible corporate policies. Higher economic growth will contribute to alleviating poverty in developing economies (Kurtishi-Kastrati, 2013).

FDI can bring various benefits but can also negatively impact domestic producers. Unfair competition is one negative aspect of FDI that can be identified. Special privileges for the foreign investor may disturb the internal market and thereby undermine local businesses. The country must get the funds for the subsidies, and they achieve it by increasing taxes to the population. The local producers may also lose their position in the market, because foreign investors obtain a monopoly in the market (Barkauskaite & Naraskeviciute, 2016).

Possessing good and relevant information leads to knowledge-based action (Vaghely & Julien, 2010), and opportunity recognition leads to opportunity exploitation. An increased international experience and knowledge broadens the decision-maker’s knowledge span, making him/her more aware of opportunities. The process of internationalization is said to be influenced by enabling, mediating, and motivating forces (Oviatt & McDougall, 2005). The decision maker is the mediating force who discovers the opportunities. Linguistic knowledge can be seen as either an enabling force, which makes internationalisation achievable, or a motivating force, which encourages the internationalization. Zait, Warter, & Warter (2014) states that positive linkages between host country trust and performance have two consequences: positive FDI performance may generate more FDI from well-performing foreign firms, and positive FDI performance has an important signalling effect on other foreign firms.
Communication and exchange of important information between home and host countries is more difficult if different languages are spoken (Buckley, Carter, Clegg, & Tan, 2005). Information asymmetry will make it more difficult for managers to manage the company (Cuypers, Ertug, & Hennart, 2015), and may negatively affect performance. This may again decrease the signalling effect on other potential investors and reduce FDI inflow in the future.

A study done by Mäkelä, Kalla, & Piekkari (2007) showed that speaking a common language strengthens interpersonal attractions and connections. This may lead to better performance among the employees, which again may make other investors more aware of similar situations. According to Davidson (1980), will firms most likely invest where their competitors have invested before. If language influences FDI performance, it is therefore also natural to believe that it influences the effects FDI has on a country.

All in all, FDI can bring many more benefits to the country than harm it – that is why countries seek to attract as more FDI flows as possible (Barkauskaite, Naraskeviciute, 2016).

Figure 1. Positive and negative FDI impacts on host country
Source: Barkauskaite & Naraskeviciute, 2016
2.8 Dunning & Lundan’s motivational framework

Dunning and Lundan (2008) have proposed a well-known framework that differentiates four sources of FDI motivation:

1. Natural resource seekers
2. Market seekers
3. Efficiency seekers
4. Strategic asset or capability seekers

Many of the larger MNCs are pursuing multiple objectives, and most engage in FDI that combines the characteristics of two or more of the above categories. The characteristics of each are explained briefly in the following subsections.

2.8.1 The natural resource seekers

The natural resource seekers are motivated by accessing and exploiting natural resources, such as cheap unskilled or semi-skilled labour, creative assets and physical infrastructure. The availability of natural resources, e.g. minerals, raw materials and agricultural products has historically been the most important host country determinant of FDI (Kudina & Jakubiak, 2008). Certain natural resources have become more strategically important and increased drastically in prices, and have motivated emerging economies to invest in mining and acquire oil assets (UNCTAD, 2007). As a consequence of this, the mining industry accounted for about 32% of China’s outward FDI in 2003-2005, although that share has since decreased. Certain natural resources only exist in some countries and if someone wants a share of those, they may have to invest in countries that are geographically or linguistically distant. Large actors in natural resource FDI will therefore most likely not be language sensitive.

2.8.2 The market seekers

New markets provide a chance to stay competitive and grow within the industry, as well as achieve scale and scope economies. Market-seeking investors are attracted to market size, per capita income and market growth. Other than these, there are four main reason for a firm to engage in market-seeking investment (Dunning & Lundan, 2008):

- Their main suppliers or customers have set up foreign-producing facilities, and that to retain their businesses they need to follow them overseas.
• Products need to be adapted to local tastes or needs. In addition, without familiarising themselves with local language, business customs, legal requirements, and marketing procedures, foreign producers might find themselves at a disadvantage against local firms.

• The production and transactions costs are less when supplying from a distance.

• A part of its global production and marketing strategy, the MNC considers it necessary to have a physical presence in the leading markets served by its competitors.

Heller (2010: 103) argues for the importance of language in “facilitating the construction of and access to niche markets”. The use of language to create markets have been evident in the past. One of the earliest critiques of globalization was about the use of English by American and British companies to open new markets and create consumers. It was argued that they eliminated competition and imposed the tastes and habits of the English-speaking world on the rest of the planet. This is often referred to as “McDonaldization” (Heller, 2010). Which markets an investor intends to enter depends crucially on its knowledge and experience with that local market (Du et al., 2012). MNCs typically prioritize markets that are psychically close. It is argued that markets that are psychically close may reduce uncertainty over investment prospects and initiate learning about the target country (Johanson & Valhne, 1977, 1990; Kogut & Singh, 1988).

2.8.3 The efficiency seekers

The motivation of efficiency-seeking FDI is to rationalise the structure of established resource-based or market-seeking investment. The investing company can gain from the common governance of geographically dispersed activities. These benefits are essentially those of the economies of scale and economies of scope, and of risk diversification. The intention of the efficiency-seeking MNC is to take advantage of different factor endowments, cultures, institutional arrangements, demand patterns, economic policies and market structures. This is done by concentrating production in a limited number of locations to supply multiple markets (Dunning & Lundan, 2008).

As we will discuss more detailed later in the thesis, communication barriers may have consequences on efficiency. Employees may act passively towards their foreign colleagues or may turn to “translators” within the company to carry out their messages (Marschan, Welch,
& Welch, 1997). After an acquisition has been completed, psychic distance and language may hinder the investor in effectively monitoring and understanding the post-acquisition activities of the firm, its staff, and how to operate successfully in the host country (Dow, Cuypers, & Ertug, 2016). If not done properly, this may affect efficiency. It is therefore easy to think that efficiency seekers will follow the “gravity model” and invest in proximate countries, both geographically, culturally and linguistic. It must also be noted that ethnic similarity may not always generate the expected social benefits (Fan, Cregan, Harzing, & Köhler, 2018).

2.8.4 Strategic assets or capabilities seekers

The strategic asset seekers are usually looking to acquire the assets of foreign corporations, to promote their long-term strategic objectives. It is less to exploit specific cost or marketing advantages over their competitors but are done for either sustaining or advancing their global competitiveness. The motive for strategic asset-seeking investment is to augment the acquiring firm’s global portfolio of physical assets and human competences. The firm perceive it will either sustain or strengthen their ownership-specific advantages or weaken those of their competitors (Dunning & Lundan, 2008).

Strategic asset seeking FDI has been used to tap into or develop strategic resources in a foreign country, and exploit assets such as market intelligence, technological know-how, management expertise, and reputation for being established in a prestigious market (Chung & Alcacer, 2002; Dunning, 1998; Kuemmerle, 1999; Wesson, 2004). Strategic asset seeking FDI is in other words, driven by companies’ needs to obtain complementary resources, notably different kinds of knowledge. Previously, in some areas getting jobs was a matter of physical strength, while many jobs now require communication skills (Heller, 2010). Local employees with the proper language skills and the technical skills can therefore be seen as important assets in any company. This may lead strategic asset FDI becoming slightly language sensitive, as some companies may want to invest in countries where there are multiple people with the right linguistic and technical skills.
2.9 The OLI framework

Compared to a domestic firm, a multinational firm faces extra costs and difficulties. The advantage of becoming multinational must outweigh the extra operating cost on a foreign market. The “OLI” or “eclectic” approach to the study of foreign direct investment was developed by John Dunning. It is a helpful framework for categorizing much recent analytical and empirical research on FDI. “OLI” is an acronym for Ownership, Location, and Internalization, which is three potential sources of advantage. A company needs all three advantages in order to successfully become a multinational firm. If not all three advantages are present, the company might consider staying domestic.

2.9.1 Ownership advantage (O)

Liability of Foreignness is often characterized as the additional costs of doing business abroad. Hymer (1960) and Kindleberger (1969) were the first to raise these additional FDI costs, arguing that a foreign firm must have an “compensating advantage” to overcome the liability of foreignness.

These costs may arise from at least five sources:

1. Spatial distance (travel, transportation, and coordination costs).
2. Unfamiliarity with the local environment.
3. Discrimination faced by foreign firms
4. Restrictions from the home country
5. Dealing with the differences in regulation, language, culture, and norms.

This leads to additional costs and a competitive disadvantage that needs to be overcome. Larger psychic distance leads to larger liability of foreignness (Sethi & Guisinger, 2002).

In order to compete with local businesses, the multinational company must have different ownership advantages. An ownership advantage could be linked to technology, patents, expertise, and knowledge. Benefits can also be the ability to organize and control global value chains or huge economies of scale.

2.9.2 Locational advantage (L)
Host countries must offer compelling advantages to make it worthwhile to undertake FDI. Location advantages can be simply geographical or are present because of the existence of cheap raw materials, low wages, a skilled labour force or special taxes and tariffs. Other examples are infrastructure provisions (educational, transport and communication), language, culture, and political differences (Dunning & Lundan, 2008).

Some potential locations for FDI projects are clearly more attractive and less risky than others. Regional networks of the investing firm may have an important impact on its entry mode decisions by reducing information asymmetries and providing access to important local knowledge and resources. Rauch (1999) showed that colonial ties and a common language increased bilateral trade, while Rauch and Trindade (2002) demonstrated that the presence of ethnic Chinese networks did likewise. The avoidance of contract violation and Information sharing would also seem to be important factors in foreign investment decisions (Gao, 2003). Location-specific networks within the host country may reduce the perceived riskiness of the FDI project and the associated agency costs for the parent company. Firms entering more distant markets, geographically, culturally, and linguistic are taking on greater risk. These risks may be mitigated by network-related factors, such as access to key local contacts, knowledge and information in an FDI destination (Filatotchev, Strange, Piesse, Lien. 2007). The linguistic distance and cultural factors between host and home country can disturb information flow between firms and foreign markets. Location advantages of different
countries are crucial to determine which countries that are capable of becoming a host country.

2.9.3 Internationalization advantage (I)
The internalization advantages (I) arises as an answer to market failure, such as asymmetric information between buyers and sellers. This creates uncertainty around the quality of the transactions (Dunning & Lundan, 2008).

Dunning & Lundan (2008) explains that there should be an internalization advantage in that the firm believes that its ownership advantages are best exploited internally rather than have it performed by an external party. Some reasons to outsource certain activities to different companies abroad might be because they are better at it, are able to do it cheaper, or have more local market knowledge. The key factor in an internalization strategy is to minimize transaction costs.

Linguistic distance between the home and host countries is an important component of psychic distance which is likely to influence transaction costs (Demirbag, Tatoglu & Glaister, 2007). The literature analysing the role of language on internationalization patterns points out that language-conflicts is one of the main sources of conflict in international business administration.

In FDI, transaction costs related to contract negotiating, and writing enforceable and controllable contracts are significant. “A country that has in place institutions and a business culture that reduces the uncertainty and "hassle" in negotiation and enforcement of contracts will have competitive advantage in attracting FDI” (Sara & Newhouse, 1995:319). Everything else being equal, FDI will go primarily to those countries that reduce transaction costs. A country desiring foreign capital must undertake structural adjustments and policy reforms to reduce transaction costs for MNCs (Sara & Newhouse, 1995).

2.10 Psychic distance and language
Psychic distance is something that has long been researched in international business, and is accurately defined by Johanson and Vahlne (1977, 24) “as the sum of factors preventing the flow of information from and to the market. Examples are differences in language, education,
business practices, culture, and industrial development”. These factors are contributors to hampering the foreign investor’s search for information regarding the target firm and/or target country. This is again a contributor to increased information asymmetry as the target firm could have provided valuable information. But, because of the psychic distance these two are not able to effectively communicate with each other. Similarly, these factors may as well hamper the investor in effectively monitoring and understanding the activities after the investment, which can lead to behavioural uncertainty (Dow et., 2016).

Ever since language first appeared as a topic in international business, the relationship has challenged international business researchers (Tenzer, Terjesen, & Harzing, 2017). However, after Kogut & Singh (1988) came up with a new way to operationalize cultural distance, language is now rarely considered on its own. This is because Kogut & Singh’s (1988) cultural index, though very convenient, does not consider other dimensions of psychic distance, such as language. Language has therefore often been referred to as “the forgotten factor in multinational management” (Marschan et al, 1997). There may be several reasons for why language has received a lack of attention. A reason could be that language has been viewed as a part of culture, and that researchers have mostly analysed it when studying cultural distance, and it has therefore been believed needless to focus on language as an individual explanatory factor (Luo & Shenkar, 2006; Welch, Welch, & Marschan-Piekkari, 2005). Our intention is therefore to bring language back into the light and investigate its impact on foreign direct investment in Southeast Asia.

When entering a new market there will be certain challenges to face. Language can certainly be one of those, often in the form of language barriers, which is a form of communication barriers. According to Harzing & Pudelko (2013), will every company that decides to expand internationally experience language barriers. That is, if they expand into a country that do not share its home country language. Communication barriers are defined as obstacles that complicate, hinder, or slow down the process of transmitting verbal messages (Krone, Jablin, & Putnam, 1987), and consist of two types: geographic and linguistic ones. Geographic barriers occur from the geographic distance between home and host country locations. The distance increases the cost of verbal communication by for instance: increasing the travel and opportunity costs of direct face-to-face communication between home and host country employees, as well as increasing the costs of conveying messages between these employees.
over distance through mediums such as telephone, video calls, and mail (Arora & Fosfuri, 2000; Fladmore-Lindquist & Jacque, 1995; Welch & Welch, 2008).

Linguistic barriers can be divided into two components: native and foreign language barriers. Native language barriers occur if home country employees (for example, MNE parent employees or expatriates) and host country employees (for example, local managers or workers) do not understand each other’s native language, which means that even basic verbal messages may lead to misunderstandings. The smaller the fraction of home and host-country employees that can understand each other’s native language, and the more these languages contrast each other, the higher the native language barrier (Dow & Karunaratna, 2006). Foreign language barriers, on the other hand, occur if host-country employees do not master or understand a third-country language, a so-called lingua franca, used within the corporate network of the home-country enterprise. The bigger the lack of understanding of the lingua franca in the host-country, the higher the foreign language barrier.

Native and foreign language barriers will probably also lead to an increase in the costs of verbal communication between home and host countries. They mainly do so by increasing the costs that home and host-country enterprises must sustain before their employees understand oral and written messages that they communicate to each other through various mediums (Barner-Rasmussen & Björkman, 2005; Buckley et al., 2005; Luo & Shenkar, 2006; Welch & Welch, 2008). Specifically, larger native or foreign language barriers between the home and host-country will lead to repetition in verbal communication. These are issues that an enterprise must contemplate if they are considering investing abroad or expand internationally, as large communication barriers will have consequences (Marschan et al., 1997).

Passive behaviour can be one of the consequences of large native and/or foreign language barriers. This means that the response is to do nothing, or in other words, an employee who do not understand the company language may ignore or disregard communication completely. An example from a Spanish middle manager in the company Kone goes as follows: “We should receive this (corporate) information in Spanish, so that it could be used here. I have a lot of information about maintenance here in these folders, but I don’t have time to translate it into Spanish. At present, I can’t read it, nor understand it or use it” (Marschan et al., 1997, 593). Another example can be found in Monks (1996) study of nine MNCs French
subsidiaries in Ireland. The Irish HR director of a French bank admitted that all documents and policies received in French were rarely paid any attention.

Another consequence is that employees will seek out and use, for example, expatriates that are fluent in the company language to provide translations. This may result in distractions for the employees having to do the translations, meaning they get distracted from doing the tasks they originally are assigned to. This was the case for a Taiwanese subsidiary manager: “Particularly in Taiwan not so many people speak English... Although my English is not so good... I'm the best in (our unit), so I have to be responsible for all communication” (Marschan et al., 1997, 593). This manager claims to not be especially fluent in English, and this may significantly reduce the quality of the translation. If the translation is very bad, it may distort the intended meaning of the message. In the worst case, this distortion may be implemented into procedures in either the home country enterprise or host country subsidiary, which may negatively affect the company’s results (Marschan et al., 1997).

The lack of understanding of the social and cognitive dimensions of a language can be just as important as the incapability to understand the linguistic system of that language (Holden, 1989). Language barriers can therefore be viewed on two levels, not just focusing on a person’s inability to understand a foreign language, but also affecting the capacity a person has to comprehend another culture. Language barriers therefore affects not only just simple verbal communication but also the ability to interpret norms and ideas from different cultures, which is significant as culture is a key to new foreign market (Swift, 1991). Intercultural communication is a complex process, and it is therefore understandable that institutions involve interpreters in their decision processes (Gerver & Sinaiko, 1978).

According to Glees (1986), knowledge of the market language contributes to greater accuracy of communication, in addition to increased awareness of customs, tastes and patterns of consumption. Market “closeness” thus becomes a key concept which refers to the psychological proximity to another market. This proximity is achieved through sharing of the market’s culture and language. The better understanding the investor has of the culture and language of the market, the better they will perform in that market (Ford, 1989).

The social benefits of demographic similarity have been documented in the management literature. These benefits include increased interpersonal attraction, enabling friendships, and
encouraging communication (Chattopadhyay, Tluchowska, & George, 2004; Tsui & O’Reilly, 1989; Tsui, Porter, & Egan, 2002). This is also gains support from the expatriate literature, where there is a large portion that focuses on expatriates that are ethnically different from the local employees (Fan et al., 2018). Through other theories such as social identity theory and self-categorization theory, it has been documented that expatriates might face challenges in getting information, knowledge, and social support from the local employees, because of ethnic differences (Mäkelä, Andersson, & Seppälä, 2012; Pichler, Varma, & Budhwar, 2012). This implies that expatriates that work in countries that are ethnically closer to their home country would experience fewer problems than if they are working in a completely different country in terms of ethnicity. This would in turn suggest that firms/investors would be more willing to invest/expand into ethnically similar countries (Fan et al., 2018).

To prevent information asymmetry when doing an investment into a foreign market, firms need to access reliable and detailed information from several sources in the target country. Information like this is most likely to come from individuals with whom one has a trusting relationship, which is built over time (e.g., Levin & Cross, 2004). To establish such a relationship is difficult with a person which you don’t share a language with (Welch et al., 2005), which in turn, may reduce the quality and quantity of information transferred. Mäkelä et al. (2007) study of knowledge sharing in three multinational companies shows that speaking a common language (a mother tongue or lingua franca) leads to closer connections between employees. These personal connections may again lead to a greater transfer of soft knowledge, like for example insider information (Cuypers et al., 2015). Information asymmetry will also be relevant in the post-acquisition/post-investment stage, because language barriers will make it challenging for the acquirer/investor to manage the subsidiary without getting the soft knowledge from the subsidiary’s managers.

To manage the human side of an investment process is a very important factor in determining the success of an FDI investment (Piekkari, Vaara, Tienari, & Säntti, 2005). One of the keys to managing the human side is communication, and linguistic differences in the workforce is likely to complicate communication in an investment process. Therefore, linguistic distance occurs as an issue to deal with when carry out an FDI investment (Vidal-Suárez & López-Duarte, 2013).
2.11 Cultural distance

Hofstede (1980, 2001) is by many seen as the founding father of cultural distance and defines culture as “collective mental programs” shared by a group. These programmes will be different in different groups, which means we can say that culture is what distinguishes one group from another (López-Duarte & Vidal-Suárez, 2010).

Hofstede created four dimensions that describes national culture based on work he carried out between 1967 and 1978. He carried out surveys within foreign subsidiaries of IBM and came up with the following four dimensions: power distance, masculinity, individualism, and masculinity. “Power distance measures the degree to which people accept the unequal distribution of power inside organizations; uncertainty avoidance represents the degree to which people tolerate uncertainty and ambiguity in situations, individualism, as opposed to collectivism, stands for the preference of people to belong to a loosely versus tightly knit social framework; masculinity, as opposed to femininity, represents the degree to which people prefer values of success and competition over modesty and concern for others” (Barkema & Vermeulen, 1997, 846-847). Together with Bond (Hofstede & Bond, 1988), Hofstede found a new dimension of cultural distance, which they called “Confucian dynamism”. This dimension was later renamed to “Long-term orientation”.

These four dimensions have been used in research of international business several times (for overviews, see Chandy & Williams (1994); Redding (1994); Sondergaard (1994)).

According to Schein (1985) and Schneider (1989) culture serves two important purposes: 1) solve problems of external adaptation and 2) solve problems of internal integration. These two purposes can be connected to Hofstede’s four dimensions. External adaptation is connected to the defining of objectives and strategy, which is influenced by attitudes regarding uncertainty avoidance and long-term orientation (Schneider, 1989; Schneider & De Meyer, 1991).

Internal integration refers to the company’s relationship with its employees, which is influenced by attitudes regarding power distance, individualism, and masculinity (Schneider, 1989; Schneider & De Meyer, 1991).

According to Shenkar (2012), cultural distance has three purposes in explaining FDI. The first is to explain why a company chooses a specific FDI-location. The second is to predict and explain the entry mode choice when expanding internationally. The third is to clarify the success, failure, and performance of the company’s subsidiary in the host country.
National culture refers to these programmes when a particular group of people share the same national environment. According to Shenkar (2001), is cultural distance the differences in certain values, norms, and behaviour rules between cultures, and these differences increase the difficulties that an investing firm needs to overcome when it seeks to expand into a new country. Evidence for this has been found by Erramilli & Rao (1993) and Hennart (1988), which found that the costs of negotiating a joint venture contract increased as cultural distance increased.

In an international business transactions, people with different societal value systems will have to interact. Different nationalities may not always correlate with different societal values, but more often than not people within a nation create and maintain a shared culture (Rokeach, 1973; Hofstede, 1980). Adapting to the factors that are included in the definition of a national culture (politics, economy, religion, language etc.) can be a burden for multinational companies (Schwartz, 1999).

The underlying assumption regarding cultural distance is that large differences between home and host nation cultures increase the entry costs, decrease operational benefits, and hamper the company’s ability to transfer core competencies to the host nation (Bartlett & Ghoshal, 1989; Palich & Gomez Mejia, 1999). The cultural distance construct has drawn different opinions and conclusions, and some researchers have found a negative relationship between cultural distance and MNCs (e.g., Luo & Peng, 1999), while other studies have indicated a positive relationship (e.g., Morosini, Shane, & Sing, 1998).

Even though the general consensus regarding psychic distance is that larger psychic distance between home and host nation will increase the difficulties multinational companies faces, it is still possible to suggest that psychic distance may positively affect MNCs. It was discovered by O’Grady & Lane (1996) that entering a psychically close market does not guarantee success, and it can be claimed that assumed similarities between the home and host nation may lead to poor performance, as small differences between the countries are overlooked or underestimated. This can be a serious mistake and may affect the company negatively. When companies establish themselves in psychically close country, they may also find it difficult to differentiate themselves from the competition, which may have an adverse effect on performance (Evans & Mavondo, 2002). Cultural differences may also enhance
performance. Evans & Mavondo (2002) suggests that companies will face a high level of uncertainty when expanding into a psychically distant nation, the companies will do more thorough research and planning. This will improve their strategic decisions, which may improve performance as well. This is most relatable to companies faced with unexpected difficulties when they first expanded into a psychically close nation, and is now better prepared for an expansion into a more distant nation.

Larger psychic distance can also relate to unique opportunities for companies that they cannot find in less distant countries. For companies based in highly developed and competitive markets, it can be smart to expand into distant markets where they face less competition. By taking an early initiative in establishing themselves in psychically distant, less developed markets, they may enjoy significant first-mover advantages in those markets (Evans & Mavondo, 2002).

A key assumption of Hofstede’s work (Hofstede, 1980;1989) is “that values – the core of national culture – are stable constructs and have been present in the people from different nations for a long period of time” (Barkema & Vermeulen, 1997, 851). The research that resulted in Hofstede’s four dimensions took place from 1967 to 1978. It is approximately 40 years since that work was completed, and even though these dimensions have been validated since (Søndergaard, 1994), several researchers have raised questions about this and have supported the idea that cultures are converging (e.g., Ohmae, 1985; Levitt, 1983; O’Reilly, 1991). It is no doubt that nations are converging in terms of clothing (H&M), food (McDonalds), and entertainment (Netflix). Hofstede (1980, 1989), however, suggests that these converges are happening is superficial factors of culture. Thus, Hofstede believes that core values in a national culture will remain stable, which means his work will still be relevant. We support this and will therefore use his dimensions in one of our variables.

2.12 Institutional distance

Institutional distance is a newer construct and captures the differences between the institutional environments of the home and host country (Kostova, 1999). As defined by Scott (1995), institutional distance is based on three pillars: regulative, normative and cognitive. Institutions provide the rules in society, and organizations are the one following these rules when interacting with different actors in societies (North, 1990). The rules, regulations, and
norms when doing business can vary greatly from country to country, which leads to both opportunities and challenges for MNCs when looking to invest in new markets (Gaur & Lu, 2007). A possibility is that differences in institutional environments create opportunities for institutional arbitrage. Dunning’s (1993) ownership-location-internalization framework proposes that economic systems and environmental conditions of some locations can provide better opportunities than others, in the form of exploitation advantages. For instance, some activities along the value chain could be favourable in one institutional environment, but not another. An example provided by Gaur & Lu (2007) implies that it is common for MNCs to establish their research and development departments in the United States. This is because of the more advanced regulatory regime for copyright protection in the US compared to other countries. It is also because of the significant focus on technology and innovation in the US.

Literature on FDI has noticed the importance of institutions when attracting FDI, suggesting several reasons why the quality of institutions may matter. Stated in the growth literature as well, good economic institutions in a country, like property rights and rule of law, may increase willingness to invest in that country (Acemoglu, Johnson, & Robinson, 2005; Kaufmann, Kraay, Lora, & Pritchett, 2002; Rodrik, Subramanian, & Trebbi, 2004). This may also lead to higher economic growth, and therefore, make the country more attractive for other foreign investors. A poor institutional environment, on the other hand, that includes corruption or criminality for instance, increases costs of an FDI (Aleksynska & Havrylchyk, 2013). There are high levels of sunk costs involved in FDI, and investors will therefore hesitate to carry out and FDI unless they can write long-term contracts to decrease uncertainty.

Even though most studies have found a negative correlation between increased institutional distance and FDI, and a negative institutional environment and FDI, there are studies that demonstrate negative effects can be reduced if investors have previous experience with poor institutions. It has been shown that countries with high corruption and a lack of law enforcement against corruption choose to carry out FDIs in similar countries (Cuervo-Cazurra, 2006). This is to exploit their familiarity with corruption and similar institutional environments, and because they face lower operating costs compared to other investors. Darby, Desbordes, & Wooton (2009) develop and empirically test the hypothesis that MNCs with earlier experience with poor institutional environments at home are less discouraged by poor institutional environments abroad, in contrast to investors from home countries with
well-developed institutional environments. They also demonstrate that well-developed institutional environments in host countries may discourage investors from countries with poor institutional environments.

Egger & Winner (2005) test and confirm a “helping hand” impact of corruption on FDI in which corrupt environments accelerate the bureaucratic processes of setting new businesses or subsidiaries. These two studies show that countries with poor institutions do not necessarily have to improve their institutional environment to attract foreign investors. They may still receive substantial investment flows, although from a different type of investors (Aleksynska & Havrylchyk, 2013).

2.13 Geographical distance

Geography determines climate, endowments of natural resources, disease burden, transport costs and the diffusion of new innovations, and has an impact on policies and the convergence of world economies (Naudé & Krugell, 2007). In addition to this, geography directly affects agriculture and health, and indirectly affects impact on economies through distance and institutional environments. According to Masters and McMillan (2000), are countries located in tempered climates converging with each other economically, conditional only on their policy choices, while in tropical countries (such as countries in Southeast Asia) convergence is dependent on their ability to achieve economies of scale – through, for example, larger urban accumulation or better integration into the world economy.

Gallup, Sachs, & Mellinger (1999) implies that nearly all tropical countries are poor and that landlocked countries tend to be much poorer than countries with coastlines. All the Southeast Asian countries are located far away from core markets in Europe and the United States, and except from a few exceptions, have low population densities. These are all factors that contributes to higher transportation and transaction costs. Countries such as Indonesia and Philippines are vast island nations and may require even higher costs of transportation.

According to Buckley & Casson (1979), will a smaller geographic distance reduce entry barriers, subject to transportation and information processing requirements. It will also reduce costs of managerial coordination and monitoring costs. Geographical proximity makes it easier to engage in personal contact, which is necessary for effective transfer of knowledge.
and other resources (Vachani, 1991). An example can be drawn for R&D activities. When Geographic distance increases, the cost and difficulty of communication increases as well (Daft & Lengel, 1986), and efficiency in communication lowers (Katz & Allen, 1982) making it more difficult to create close relationships and collaborative environments (De Meyer, 1991; Westney, 1990). This contrasts with geographic proximity, which enhances face-to-face communication as well as other means of contact with fellow scientists that create collaborative environments (Ganesan, Malter, & Rindfleisch, 2005).

Differences in time zones are part of the geographic distance. Factors such as the internet and advances in telecommunications have reduced the costs of communicating with each other across continents. However, the small or non-existent overlap in working hours between countries like Singapore and United Kingdom can be a problem for managers controlling companies with subsidiaries so far away (Dow & Karunaratna, 2006). Time zone differences will not likely disturb the interpretation of information, but will create insecurity regarding rapid communication (i.e., resolving an urgent problem) should there be need for that.

As suggested in internationalization theory, market-seeking firms are more likely to serve countries that are geographically close through exports, and geographically distant markets through FDI (Buckley & Casson, 1981). This would suggest that FDI substitutes other alternatives of serving markets as geographic distance increases. It can be also be suggested, however, that countries contribute a larger flow of FDI to proximate countries, and that this effect is larger than the substitution effect (Loungani, Mody, & Razin, 2002).

2.14 Colonial links

“Colonial ties” is a factor that is occasionally recognized as having an impact on psychic distance, and has been used as an explanatory variable in several international trade flow studies (Linnermann, 1966; Rauch, 1999). Because of its impact on psychic distance, colonial ties have the potential to influence the flow of information, which leads it to potentially impact trade as well (Dow & Karunaratna, 2006). A study done by Girma and Yu (2002), shows that the United Kingdom has a higher tendency to trade with former colonies. Garret (2016) hypothesize that colonial ties creates a shared backdrop between the home and host countries, and that this shared past makes it more likely for the home country to invest in host countries they share a colonial tie with. His empirical results support this hypothesis.
Svedberg (1981) found that in 1938, colonial powers were overrepresented in FDI in their colonies. A factor of 2.2 was measured in British colonies and a factor of 11.9 was measured in French colonies. This means that there was 2.2 times as much investment by British investors in British colonies, as could be predicted by Britain’s share of total global investment, and 11.9 times as much investment from French investors in French colonies.

2.15 GDP

Herzer (2008) examined the long-run relationship between outward FDI on domestic output. His findings from 14 industrialized countries over the period 1971–2005 showed that outward FDI has positive long-run effects on domestic output. The entire domestic economy benefits in the long run from outward FDI due to the increased competitiveness of the investing companies and associated spillovers to local firms. His results also showed that the long-run causality is bidirectional, suggesting that increased outward FDI is both a cause and a consequence of increased domestic output. Stoian (2013) also finds that countries with a higher level of GDP produce higher outward FDI flows.

3.0 Theory and hypothesis development

As outlined in the Chapter 2, language has been widely used in international business studies, but not as an explanatory factor on its own. Language effects have often been regarded as a part of culture and bundled into cultural distance when researchers have analysed FDI determinants. Due to this, it has been seen as unnecessary to focus on language independently until recently (Luo & Shenkar, 2006; Welch et al., 2005). The theoretical and practical relevance of language in international studies is maybe best described by Piekkari et al. (2014, 1): “To say that language permeates every face of international business would meet with little argument, especially from those involved in global activities”. We follow Golesorkhi et al. (2019) and see language as analytically distinct form culture.

Scientists approach language from multiple angles. Three aspects are most prominent: 1) national languages spoken in MNCs, 2) officially mandated corporate languages, and 3) English as the language of global business. Our approach deviates from 1) and 2) and focus
instead on global languages and linguistic distance, while the third aspect is integrated in our study.

Language presents itself in forms such as national, corporate, technical or electronic, in terms of defining hierarchies, exercising power or facilitating integration (Brannen, Piekkari, & Tietze, 2014). When companies internationalize and enter new markets, they face several language boundaries, like national language for instance. Operating internationally means having to interact with transcontinental intermediaries, distinct government agencies, and foreign institutions, which inhabit different language environments (Brannen et al., 2014).

Some studies of language in international business have been inspired by sociolinguistics and approached the culture-specific elements of language (Tenzer, Terjesen, & Harzing, 2017). They analyse the culture-specific rhetorical patterns in speech, such as requesting, refusing and thanking to understand how speakers of different languages in different cultures uses language in interactive contexts to create specific meaning (Kassis Henderson, 2005). This meaning has been found to create several misunderstandings in communication (Chen, Geluykens, & Choi, 2006). Several firms in different countries have faced difficulties in that respect, some of which have relied too much on the use of English as a “lingua franca” (Crick, 1999). A regional UK study concluded that “recent research shows that 33 percent of small to medium-sized companies in the north of England has encountered a language or cultural barrier. This figure was almost twice as high as the one for comparable areas of Spain and Germany” (DTI, 1996a). This shows that some countries are more reliable on the use of English as a business language than others. In addition, some countries are more open to new languages and cultures than others. An example is provided by McIntyre (1991, 19): “You can buy all the Hondas you want in the United States without knowing Japanese, but try to sell Buicks in Japan without the language and a knowledge of the culture, it just doesn’t work”.

In our study, we use language at a national level rather than at a corporate level.

3.1 Hypotheses development

We argue that countries that use a global language will contribute more FDI than others. A language achieves a global status when its widely recognized and is often measured in terms
of the number of countries that language serves as an official language in (Crystal, 2003; Simons & Fennig, 2018).

Because we only study Southeast Asia, we have chosen a different and more narrow approach in the selection of our “global languages”. We are aware that languages such as French and Spanish are among the most spoken in the world, but that is not the case in Southeast Asia. We have therefore excluded such languages from our data and limited ourselves to use English and Mandarin as our “global languages”. First of all, these are the two most spoken languages in the world – with approximately 940 million and 1 billion speakers. Secondly, these languages have a large number of speakers and serves as official statutory working languages in several of the FDI investor countries and recipient countries. For example, both Singapore and India are multilingual countries, but both countries have English as official language. Mandarin also serves as official language in Singapore.

The political and economic power of English as a language has increased tremendously during the last two centuries. Main reasons have been Growing economic incentives to learn English, great increase in per capita incomes of English speakers, great wealth growth in Great Britain because of trade, and the fact that the United States became the world’s largest economy by the end of the 19th century (Selmier & Oh, 2013). During the last 30-40 years, Chinese economic institutions have also grown significantly, as well as the use of Chinese as a language. We are aware of the huge variety of Chinese languages, and that several of these varieties are practiced in Southeast Asian countries. However, we have decided to include only Mandarin in our data analysis because Mandarin is the most spoken language in China and in the world. Mandarin also holds the status of an official language in some of the Southeast Asian countries. This is evident in countries like Singapore and Malaysia. Mandarin enjoys the status as an official language in both Singapore and Malaysia, whereof a large population in Singapore practices Mandarin. We therefore put forward our first hypothesis:

**H1:** Investor countries in which a “global language” (defined as English and/or Mandarin) holds an official status will contribute more FDI to Southeast Asian countries than countries with other official “global languages”.

Our next two hypotheses are not solely based on languages spoken in different countries, but rather on languages shared between the FDI investor and FDI recipient. Language is a cultural
driving force, and cultural values are reflected in the language spoken (Selmier & Oh, 2013). Cultural understanding can often be necessary in more complex, long-term transactions such as FDI, where there is deeper communication involved. If a foreign investor shows interest in understanding the culture of an abroad investment partner, it may create familiarity and trust between the parties. In other words, language may be a significant factor in increasing trust.

We support Golesorkhi et al. (2019, 13) that “… the ability of the MFB to engage in a meaningful business dialogue with international financial partners is premised on a shared language, whether English or another language. If the MFB does not have the requisite language skills its ability to communicate with external parties such international lenders, donors, and technical assistants will be limited”. We believe this is the case for FDI as well. Ultimately, carrying out an FDI will be extremely difficult if the investor is not able to communicate in the language of the host country. A shared language gives the investor and subsidiary managers something in common, and as pinpointed earlier, language can be a tool to build trust and familiarity. We believe that an investor’s knowledge of the language, also affects his/her ability to absorb information regarding value, norms and how to carry out an FDI successfully in that country. Hence, our second hypothesis is:

**H2:** Investor countries that share a global language with a recipient country, will contribute more FDI than countries that do not share such a common global language.

Our third hypothesis is based on a belief that the linguistic distance between the country of the FDI investor and FDI recipient will have a negative effect on the amount of FDI given. Linguistic distance is not as easily defined as two languages being the same or different (Selmier & Oh, 2013). Some languages are more similar than others in terms of words used, grammatical structure, or their alphabet. Language “closeness” may promote communication, which may again promote trade and FDI. Language closeness means that learning the desired language is easier; it means that words and grammar used in one language may be recognized by speakers of a similar language (Hall, 1966). We base our use of linguistic distance on the gravity model.

The gravity model is built on the idea that a smaller “distance” between country pairs, in terms of geographic, financial, institutional or cultural factors, leads to lower transaction costs between the two countries. Lower transaction costs will lead to higher levels of trade and FDI.
(e.g., Bergstrand, 1985; Rugman, 1981). When two countries engage in trade or FDI they must negotiate in one or both of their respective languages, or in a lingua franca. When the two languages are very similar the threshold to initiate trade or FDI is lower as transaction costs decline (Helliwell, 1999; Hutchinson, 2002; Oh & Selmier, 2008). On the other hand, if the distance between the two languages increase, transaction costs will increase (Selmier & Oh, 2013).

Parallels can be drawn between the effect of linguistic and psychic distance. Johanson & Wiedersheim-Paul (1975) regarded lack of common language as one of the key factors contributing to psychic distance, which prevents essential information about the foreign target country from reaching headquarters (Dow & Karunaratna, 2006; Håkanson, Ambos, Schister, & Leicht-Deobald, 2016). We support the idea of McCreevy (2005) and White (2008), in that reducing the information frictions faced by investors across countries can potentially increase international investment flows, improve resource allocation, and enhance capital market efficiency. Hence, our hypothesis is:

**H3:** Investor countries that are at a greater linguistic distance from the recipient countries will contribute less FDI than countries with a smaller linguistic distance.

### 4.0 Methods

#### 4.1 Multiple regression analysis

In our study of the three hypotheses in the previous chapter we have used the most common model tool in econometrics, that is, multiple regression analysis. Relevant research papers like Golesorkhi et al. (2019) and Dow & Karunaratna (2006) have also used multiple regression analysis in their studies. Our study is quite similar to both these studies. Hence, we find it appropriate to use the same model approach and believe multiple regression analysis will be a good fitting model tool for our data analysis.

The idea of multiple regression analysis is very similar to simple regression analysis. While simple regression analysis uses only one independent explanatory variable to explain variance in the dependent variable, multiple regression analysis uses two or more independent variables. A multiple regression analysis provides a tool to assess the degree and character of
the relationship between the independent variables and the dependent variable: the regression coefficients specify how important each of the independent variables is in predicting the dependent variable. An example is provided by Bougie & Sekaran (2016, 314) “suppose that a researcher believes the variance in performance can be explained by four independent variables, A, B, C, and D (say, pay, task difficulty, supervisory support, and organizational culture). When these variables are jointly regressed against the dependent variable in an effort to explain the variance in it, the sizes of the individual regression coefficients indicate how much an increase of one unit in the independent variable would affect the dependent variable, assuming all the other independent variables remain unchanged”.

In summary, our regression models are presented below:

1. \[ \text{Ln}(\text{FDI}) = \beta_0 + \beta_1\text{English} + \beta_2\text{Mandarin} + \beta_3\text{sqrtGeo} + \beta_4\text{Colonial_Ties} + \beta_5\text{sqrtInst} + \beta_6\text{sqrtCul} + \beta_7\ln\text{GDP} + \epsilon \]
2. \[ \text{Ln}(\text{FDI}) = \beta_0 + \beta_1\text{Shared_English} + \beta_2\text{Shared_Mandarin} + \beta_3\text{sqrtGeo} + \beta_4\text{Colonial_Ties} + \beta_5\text{sqrtInst} + \beta_6\text{sqrtCul} + \beta_7\ln\text{GDP} + \epsilon \]
3. \[ \text{Ln}(\text{FDI}) = \beta_0 + \beta_1\text{L1} + \beta_2\text{Dummy_L1FDIR} + \beta_3\text{L1FDIS} + \beta_4\text{sqrtGeo} + \beta_5\text{Colonial_Ties} + \beta_6\text{sqrtInst} + \beta_7\text{sqrtCul} + \beta_8\ln\text{GDP} + \epsilon \]
4. \[ \text{Ln}(\text{FDI}) = \beta_0 + \beta_1\text{L2} + \beta_2\text{Dummy_L1FDIR} + \beta_3\text{L1FDIS} + \beta_4\text{sqrtGeo} + \beta_5\text{Colonial_Ties} + \beta_6\text{sqrtInst} + \beta_7\text{sqrtCul} + \beta_8\ln\text{GDP} + \epsilon \]
5. \[ \text{Ln}(\text{FDI}) = \beta_0 + \beta_1\text{L3} + \beta_2\text{Dummy_L1FDIR} + \beta_3\text{L1FDIS} + \beta_4\text{sqrtGeo} + \beta_5\text{Colonial_Ties} + \beta_6\text{sqrtInst} + \beta_7\text{sqrtCul} + \beta_8\ln\text{GDP} + \epsilon \]

In Table 1, you will a description of each variable.

4.1.1 Goodness of fit
It is appropriate to have a measure of how well the regression model fits the data. Or put differently, it’s appropriate to the answer the question “how well does the model containing the explanatory variables that was proposed actually explain variations in the dependent variable?” (Brooks, 2008, 106-107).

The most frequently used goodness of fit statistic is known as \( R^2 \) (Brooks, 2008). The \( R^2 \) is the square of the correlation between the values of the dependent variable and the matching
fitted values of the independent variables from the model. Since \( R^2 \) is the square of a correlation coefficient it will lie between 0 and 1. If the value is close to 1, the model fits the data well. Oppositely, if the value is close to zero, the model is not offering a good fit for the data.

Even though \( R^2 \) is easy to interpret and provides a broad indication of the fit of the model to the data, there are some problems with this measure (Brooks, 2008). Examples of such problems are: the \( R^2 \) will always increase when adding new variables, regardless if they provide a good fit for the model or not. \( R^2 \) can also take values of 0.9 or higher for time series models and is therefore not good at discriminating between models. This is because a wide collection of models will often have similar and high \( R^2 \) values. The adjusted \( R^2 \) goes around first problem mentioned above and takes into consideration extra variables that are added. When adding an extra variable, the adjusted \( R^2 \) will actually decrease unless the \( R^2 \) increases by more than an off-setting amount (Brooks, 2008).

4.1.2 P-values

The p-value represents the minimum size for which the null hypothesis (\( H_0 \)) would still be rejected (Verbeek, 2012). If the p-value is smaller than the significance level (\( \alpha \)), \( H_0 \) is rejected. In our study, we have used a 95% confidence level.

- If the p-value is less than 0.001 (\( P < 0.001 \)) (less than one in a thousand chance of being wrong), then it indicates an overwhelming evidence against the null hypothesis. The test is highly significant.
- If the p-value is less than 0.01 (\( P < 0.01 \)), then it indicates very strong evidence against the null hypothesis. The test is highly significant.
- If the p-value is less than 0.05 (\( P < 0.05 \)), then it indicates a strong evidence against the null hypothesis. The test is significant.
- If the p-value is over 0.05 (\( P > 0.05 \)), then it indicates a weak evidence against the null hypothesis, and we fail to reject the null hypothesis.
4.1.3 Model assumptions

Assumption 1: $E(ut) = 0$

The first assumption required is that the expected average value of the errors is zero. In fact, if a constant term is included in the regression equation, this assumption will never be violated (Brooks, 2008). In all our models a constant term is included.

Assumption 2: $\text{var}(ut) = \sigma^2 < \infty$

The second assumption is known as the assumption of homoscedasticity. If the variance of the errors ($\sigma^2$) is not constant, they are said to be heteroscedastic.

If the errors are heteroscedastic but ignored, the consequence is that the estimators will still give unbiased (and also consistent) coefficient estimates, but they are no longer BLUE (best linear unbiased estimator). That is, they no longer have the minimum variance among the class of unbiased estimators (Brooks, 2008)

There are a number of formal statistical tests of heteroscedasticity, and we have chosen to use the White test. The White test uses a null hypothesis for homoscedasticity, meaning that if we fail to reject the null hypothesis, the assumption holds. We have used this test for all our five models and have observed p-values higher than 0.05 in all of them. This means that we fail to reject the null hypotheses, and that the models are homoscedastic.

Assumption 3: $\text{cov}(ui,uj) = 0$ for $i \neq j$

Assumption 3 states that covariance between the error terms over time is zero. It is assumed that the errors are uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they are ‘autocorrelated’ or that they are ‘serially correlated’ (Brooks, 2008). In our models this is not a problem since we don’t use time-series. We are studying inward FDI flow in “one time-period”, not inward FDI flow “over a time-period”.

Assumption 4: $\text{cov}(ut,xt) = 0$ the $x_t$ are non-stochastic

Stochastic means there is a randomness in the occurrence of that event. Stochastic process will be having probability distribution and can be predicted through statistical approaches. In a regression analysis, it is assumed that the dependent variable is stochastic in nature and the explanatory variables are non-stochastic in nature (Brooks, 2008).
Fortunately, it turns out that the OLS estimator is consistent and unbiased in the presence of stochastic regressors, provided that the regressors are not correlated with the error term of the estimated equation. Since $E(u)=0$, this expression will be zero and therefore the estimator is still unbiased, even if the regressors are stochastic (Brooks, 2008).

**Assumption 5: ut ~N(0, $\sigma^2$) the disturbances are normally distributed**

The normality assumption ($ut \sim N(0, \sigma^2)$) is required in order to conduct single or joint hypothesis tests about the model parameters.

The standardised third and fourth moments of a distribution are known as its skewness and kurtosis. Skewness measures the extent to which a distribution is not symmetric around its mean value and kurtosis measures how fat the tails of the distribution are (Brooks, 2008).

A normal distribution is not skewed and is defined to have a kurtosis coefficient of 3. It is possible to define a coefficient of excess kurtosis, equal to the coefficient of kurtosis minus 3; a normal distribution will thus have a coefficient of excess kurtosis of zero. A normal distribution is symmetric and said to be mesokurtic. A normal distribution is symmetric around its mean, while a skewed distribution will not be, but will have one tail longer than the other (Brooks, 2008).

We faced some problems regarding normality in our data. Several of our independent variables, in addition to our dependent variable were not normally distributed. In order to make our variables more normally distributed we log transformed our dependent variable and square root transformed all our control variables (except Colonial_Ties, which is a dummy variable, and GDP, which we log transformed). We also experienced trouble with our variable “L1FDIR” and “English”. In order to get more variation in “English” we changed it from “English is a major language in the recipient’s country” to “English is a major language in the investor’s country”. The variable “L1FDIR” has a scale from 1 to 5 but we only observed values of 1 and 5. This is not optimal for such a variable, and we therefore transformed it into a dummy variable with value “1” if we observed the value 5, and “0” if we observed the value “1”. After making these transformations, our variables are more evenly distributed and more fitting for our analysis.
4.1.4 Multicollinearity

An assumption that is made when using the OLS estimation method is that the explanatory variables are not correlated with one another, which means they have independent measure effects on the same phenomena.

Perfect multicollinearity occurs when there is an exact relationship between two or more variables. Near multicollinearity is much more likely to occur in practice, and would arise when there was a non-negligible, but not perfect, relationship between two or more of the explanatory variables. Note that a high correlation between the dependent variable and one of the independent variables is not multicollinearity. If near multicollinearity is present but ignored, $R^2$ will be high but the individual coefficients will have high standard errors, so that the regression ‘looks good’, but the individual variables might not significant. This arises in the context of very closely related explanatory variables because of the difficulty in observing the individual contribution of each variable to the overall fit of the regression. (Brooks, 2008).

We encountered several problems regarding multicollinearity in our study. A reason for this may stem from our many dummy variables. As can be seen in our correlation matrix, we have several variables that are correlated with each other. Because of the problem with multicollinearity we created five different models to test each of the highly correlated variables in separate models. After applying the different variables in our different models, we performed vif-tests on all our models. The variance inflation factors (vif) were all acceptable, and we proceeded to use the stated models in our analysis.

5.0 Data

Our datasets consist of 114 observations from five countries in South-East Asia: Indonesia, Malaysia, Philippines, Singapore, and Thailand. The observations represent the FDIs of the 25 countries which have contributed most FDI to these countries. However, for Malaysia there are only 14 countries as FDI contributors. Our dataset includes the 25 largest contributors of FDI flow to the respective five FDI recipients in the years 2009-2017.
5.1 Dependent variable

Our dependent variable which we aim to explain is the FDI flow, that is, the total amount of FDI a country receives in a specific year. The amount of FDI to a country can fluctuate quite much from year to year, so to get a more stable data basis and less random variances, we have included the total FDI flow from 2009-2017. We have obtained our FDI data from the International Monetary Fund (IMF).

5.2 Independent explanatory variables

We follow the footsteps of Dow & Karunaratna (2006) and Golesorkhi et al. (2019), using the Ethnologue database to capture the effect of language on the amount of FDI our five countries receive. A set of language variables is therefore defined and used as our independent explanatory variables. Ethnologue is a comprehensive, up-to-date online language database covering more than 7 000 world languages (Lewis, Simons, & Fennig, 2016). The database provides three datasets, each with different information regarding countries and languages. The first dataset includes countries in the world, with different statistics regarding languages within each country. The second dataset consists of the different world languages, where they are used, and their genealogical classification. The genealogical classification gives each language a place in the genealogical tree of languages, and specifies its family, branch, sub-branch, sub-sub-branch, and so on. The third dataset provides information on which languages are used in which countries and consists of more than 11 000 country-language combinations.

In hypothesis 1, we consider whether one of our chosen languages – English or Mandarin is a major language in the country of the FDI investor. We follow Dow & Karunaratna’s (2006) definition of a major language: A language is considered a major language in a country if 20% or more of the population practices it as their first or second language and/or it holds a status as an official statutory working language in the specific country. We have created a dummy variable that is equal to 1 if one of our chosen languages is a major language in an FDI investor’s country, and 0 if not. We also created dummy variables that consider English and Mandarin individually as well.

Considering hypothesis 2, we account for whether one or several of our global languages are shared between the FDI recipient and FDI investor. We created a dummy variable called “Shared_Global_Language”, which has the value of “1” if the FDI recipient and FDI investor
shares one or more of our global languages. If they do not share any of our global languages, the dummy variable has been set to the value “0”. We also created two additional dummy variables which considers our two global languages individually.

When formulating hypothesis 3, we have followed Dow & Karunaratna (2006), trying to measure the linguistic distance between the FDI recipient and FDI investor as an explanatory variable.

In summary, we have used the three following explanatory variables to measure linguistic distance.

**L1**: Genealogical distance between the two closest major languages spoken in the FDI recipient and FDI investor’s countries. It is measured on a scale from 1 to 5, which goes as follows: 5 – languages belong to different families; 4 – languages belong to same family but different branches; 3 – languages belong to same family but different sub-branches, and so on down to 1, where the languages belong to the same sub-branch at the second level.

**L2**: Incidence of the FDI recipient’s major languages in the FDI investor’s country, measured in the population of the FDI investor’s country that speaks the major language(s) of the FDI recipient’s country. In cases where several languages are shared, we have calculated an average, using the following scale: 1 – user base comprises of more than 90% of the FDI investor’s total population; 2 – 50% to 90%; 3 – 5% to 50%; 4 – 1% to 5%; 5 – less than 1%.

**L3**: Incidence of the FDI investor’s major language in the FDI recipient country, measured in the same way as L2. In the case of several shared languages between the two countries, we have calculated an average. The scale is the same as in L2.

In addition to L1, L2, and L3, we have calculated the linguistic distance from the FDI recipient’s main language to English, following the same approach as we used to calculate L1. This variable is called “L1FDIR”. In the same way, we calculated the linguistic distance from the FDI investor’s main language to English, calling this variable “L1FDIS”. These two additional variables give us the opportunity to measure if the linguistic distance from English impact the amount of FDI, both invested and received.
5.3 Control variables

To include other factors into the study that may affect the FDI, we have applied several control variables. The first one is institutional distance between the FDI recipient and FDI investor, where we have used Heritage Foundation’s Index of Economic Freedom institutional values (Berggren & Jordahl, 2005; Meyer, Estrin, Bhaumik, & Peng, 2009; Stroup, 2007). Cultural distance between the FDI recipients and FDI investors is also included as a control variable, using Kogut & Singh’s (1988) measure of cultural distance. This measure is based on Hofstede’s work (e.g., Dow & Karunaratna, 2006; Meyer et al., 2009; Filiou & Golesorkhi, 2016). When expanding abroad or buying a firm, multinational firms must consider transportation, communication, and other transactional activities. Hence, we have measured the distance between two countries economic capitals in kilometres as another factor, using Daft Logic’s Advanced Google Maps Distance Calculator (Slangen, 2011). Colonial ties may also influence the language or languages spoken in a country and is therefore also included as a control variable. Futhermore, following Barraclough (1998), Dow & Karunaratna (2006), Golesorkhi et al., (2019), and Srivastava & Green (1986), we have also considered the colonial empires of the UK, France, Germany, Belgium, the Netherlands, Spain, and Portugal from 1650 to today. Finally, we have controlled for the size of the investor countries’ economy (GDP). To capture the effect of an investor country’s economic size, we have used total GDP and not GDP per capita. We used World Bank’s open data to find the GDP of the investor countries.

6.0 Results

In this part, we present the analysed relationship between our dependent variable (FDI inflow) and in total 14 independent explanatory variables, including the control variables. As earlier outlined, we have used a multiple regression analysis to measure the effect of the explanatory variables on FDI inflow from 2009 to 2017 in our five recipient countries (Indonesia, Malaysia, Philippines, Singapore, and Thailand).

We have tested several models to analyse the stated hypothesis H1, H2 and H3 in chapter 3. The significance of each model has been estimated by using the estimation of regression coefficients of determination and p-values.
Model 1 tested the effect on FDI inflow if one or more of our global languages is a major or official language in the FDI investor countries. Model 2 tested the effect on FDI inflow if our recipient countries share one or more of the global languages with the investor countries. Model 3 tested the linguistic distance’s effect on FDI inflow. In this model, we used the L1 measure together with L1FDIR and L1FDIS. We can see in the correlation matrix that L1, L2 and L3 correlate significantly. We want to capture the effect of all our variables regarding linguistic distance has on the FDI inflow. We have therefore chosen to use L1, L2 and L3 in separate models. Model 4 tested the impact of number of speakers of the recipient country’s language in the investor countries, together with the linguistic distance from English to both the investor and recipient’s languages. L2 respectively, measures the percentage of the population in the investor’s country that speak the major language of the recipient’s country. Model 5 is almost equal to Model 4, with the only difference being that we use L3 instead of L2. L3 is the opposite of L2, meaning it measures the percentage of the population in the recipient’s country that speaks the major language of the investor’s country.

Table 2 displays the correlation matrix for the variables used in this thesis. We have noticed that some of the correlation coefficients are of high magnitude. This could imply that some of the variables somewhat explains the same phenomena. In order to lessen this effect, we have not used the highly correlating variables in the same testing models. When further testing for potential multicollinearity we see that the variance inflation factors show little signs of multicollinearity in the models.

In Model 1, we have two variables regarding global languages used in the home countries. In Table 3, we observe that English is negative and does not have a significant (p=0.789>0.05) impact on FDI inflow. Mandarin on the other hand, is positive and not significantly (p=0.135>0.05) correlated with FDI inflow. This result is not in accordance with hypothesis H1, and concludes that FDI inflow does not seem to be impacted by the fact that English or Mandarin is a major language in the investor country.

In Model 2, we get results that is not in accordance with hypothesis H2. The variable shared English is negative and not significant (p=0.630>0.05), while shared Mandarin is positive and not significant (p=0.231>0.05). This means that sharing English or Mandarin with the investor country will not impact FDI flow. This result is not supportive to H2.
We have suggested that a shorter linguistic distance between investor and recipient language will result in more FDI. In Model 3, L1 is positive and not significant. This does not support our prediction of H3. L2 is used in Model 4 and is significant. L3, which is used in Model 5 is similar to L2 and is not significant either. Both L2 and L3 are positive as well, which is not as assumed by H3. We observe that L2 is significant (p=0.048>0.05) at a 5% level, which means that the percentage of the population in the investor’s country that speaks the major language(s) of the recipient’s country slightly affects the amount of FDI invested. The variable measuring the linguistic distance between the major language of the investor’s country and English (L1FDIS) is negative and significant in Model 4. It is not significant in Model 3 and 5. The fact that the coefficients are all negative, which means that countries with a shorter linguistic distance to English will invest more FDI is supportive to H3. But because only two of the variables are significant, and just slightly and in different models, this result is thus also partly contradicting to H3.

Due to problems regarding normality we decided to change L1FDIR into a dummy variable. This is because we only had values of 1 or 5, and it was not at all normally distributed. The dummy variable equals 1 if the L1FDIR variable has a value of 5, and 0 if the L1FDIR value has a value of 1. In all the models L1FDIR is included (Models 3,4 and 5), it is negative and highly significant. Since the coefficients are negative, it can be expected that countries where the dummy variable is equal to 0, will receive more FDI.

We observe that our control variables are significantly associated with FDI inflow in almost all our models. The geographical distance variable is significant (p<0.05) in all models. The coefficients for geographical distance are approximately zero in all the models, but has a negative sign. Recipient countries that are geographically close to the investor country is therefore expected to receive slightly more FDI than countries that are not in close proximity. The colonial ties variable is significant (p<0.05) in all models, and has a positive impact. This highlights the diverse language environment in the receiver’s country due to its colonial past, as well as its impact on FDI. The institutional distance variable is only significant (p<0.05) in Model 1 and 2 have a positive impact in all models, meaning the regression coefficient for this variable is positive in all models. This is contradicting to the general consensus regarding institutional distance, which is that a shorter institutional distance leads to more FDI. The cultural distance variable is significant (p<0.01) in Model 1, 2, 4, and 5, and have a positive
impact. This opposes most theory regarding cultural distance. GDP is highly significant in all models (p<0.05), and positive. This is as expected and suggests that countries with a large GDP will invest more FDI.

7.0 Discussion

Earlier research suggests that language has an impact on entry market selection (Berry, Guillén, & Zhou, 2010), trade flows (Dow & Karunaratna, 2006), entry mode (Demirbag, Glaister, & Tatoglu, 2009), establishment mode (Dow & Larimo, 2011), and knowledge transfer (Schomaker & Zaheer, 2014). We have taken our research in another direction and have studied what effect language has on the amount of FDI invested. Even though none of our stated hypotheses are fully supported by our data analysis, we have obtained some interesting results which generates some reflections.

Specifically, in hypothesis 1 we found that neither English nor Mandarin as an official language in the investor country has an impact on FDI flows. We observe in our data that countries such as Singapore and China are big contributors to FDI. There are also big contributors in our data that have English as an official language, but there are also English-speaking countries that barely invest any FDI. FDI has also been on the rise in Europe, but as stated by Barrel & Pain (1997), most investments have been between developed countries, especially within the OECD. Looking at UNCTADs 2018 World Investment Report, we realize that countries like the United States, the Netherlands, Germany, France, and Ireland are among the top 20 countries in both FDI inflows and outflows. This indicates that several of the big English-speaking economies in FDI tend to invest largely in each other, rather than Southeast Asia. This may explain the lack of impact English has on the investor countries’ willingness to invest in Southeast Asia.

Outward FDI from emerging economies has been steadily increasing in recent years (Luo, Xue, & Han, 2010). An increasing number of emerging economies are undertaking outward FDI. Emerging economies are also operating in a wider array of industries than the largest multinational companies from the developed economies. This recent increase is coming from the rapid pace of economic development, open-minded policies of the home governments, along with foreign market opportunities (Luo & Tung, 2007; Matthews, 2002; Rui & Yip, 2008). Many emerging economy governments (such as China, India, and Brazil) is now
encouraging local enterprises to internationalize (WIR, 2008). Since the financial crisis in 2008 Chinese companies have significantly increased their outward FDI. China’s outward FDI outflow was the third largest in the world for the third consecutive year in 2014 (EY, 2015). In 2014 China’s inward and outward FDI was almost equal for the first time, highlighting China’s recent focus on outward FDI. Among the top 10 destinations for Chinese outward FDI in 2013 we can find countries such as Singapore, Indonesia, and Thailand. Singapore, as well as China, is also one of the biggest outward investors in the world, and its FDI flows are largely concentrated in lower-income host countries (Ellingsen, Likumahuwa, & Nunnenkamp, 2006). Based on our results, we argue that the investments made by emerging economies into Southeast Asia, is more a result of their growing GDP rather than the language they speak.

We did not find any support for hypothesis 2, and thus conclude that a shared global language between investor and recipient does not affect the amount of FDI. There may be several reasons for this result. One of the reasons may be that countries where English is not a major language, such as Switzerland and Japan are among the top investors of FDI in all our recipient countries. Another reason may be that our two countries where English is not a major language; Indonesia and Thailand, are receiving the second and third most FDI behind Singapore. Japan, which is the top contributor in both Thailand and Philippines invested $532 239 million to Thailand in the measured time period, while only investing $63 479 million to Philippines.

Dunning & Lundan (2008) created a framework that describes four major motivations for outgoing FDI, and those are: natural resources, market opportunities, efficiency, and strategic assets or capabilities. In Blonigen’s (2005) “A Review of the Empirical Literature on FDI Determinants”, language is not mentioned a single time, but the focus is rather on economic drivers. There are significant market opportunities in Southeast Asia, and especially in our five recipient countries. The language diversity in Southeast Asia is also very wide with many of the major languages being very different from each other, as well as the fact that few countries share the same language. Based on our results, we believe that investors who carry out an outward FDI in Southeast Asia are motivated by market opportunities or natural resources rather than a shared language with the host country, when selecting a market to enter.
Similarly to hypothesis 1, we get varied results for hypothesis 3. We found that the linguistic distance between the investor country and recipient country does not affect the amount of FDI. The percentage of the population in the recipient’s country that speaks the major language(s) of the investor’s country (L3) is not significant either and therefore does not affect FDI. The opposite measure of L3, specifically, the percentage of people in the investor’s country that speaks the major language(s) of the recipient country (L2) is significant (p=0.037<0.05). We can’t ignore the fact that it has an impact on FDI in our data. The L2 coefficient is positive, which means that if this measure increases (population of speakers decreases), more FDI is expected. This is just the case if all the other variables remain stable. This strengthens our assumption that other FDI drivers such as market opportunities or natural resources are more important than language.

One measure of linguistic distance is highly significant though, and that is the linguistic distance from the recipient’s language to English (L1FDIR). This is negatively correlated with FDI, which supports hypothesis 3. Even though a person can learn a new language and companies can hire translators, communication problems may still arise (Dow et al., 2016). This is where English comes in as a helping hand. As mentioned earlier, English is the second most spoken language in terms of number of users, and the language spoken in the most countries in the world. We believe the reason behind this large significance is Singapore. We can see in our data that Singapore receives a huge amount of FDI inflows compared to our other recipient countries, and actually received more than twice as much FDI as Thailand (who received the 2nd most FDI in our dataset) in the time period we have studied. Singapore was the fifth largest recipient of FDI inflows in the world in 2017. Since its independence from Great Britain in 1963, Singapore has established itself as a leading global financial centre and held a total of US $2 trillion in assets in 2013 (Jie, 2017). Singapore also hosts in total 126 commercial banks, with 121 of these being foreign. Perhaps most importantly though, Singapore’s capital markets have become particularly attractive to foreign investors and financial institutions. This, together with the fact that Singapore is the only country of our recipient countries whose main language is English, helps explain the significance of this variable.
8.0 Conclusion

Based on our results, we reject hypotheses 1 and 2, while we obtained varied results regarding hypothesis 3. From hypothesis 1, we conclude that Mandarin or English as a global language in our investor countries do not impact FDI invested. Neither does shared language.

Linguistic distance does not seem to impact FDI inflow either, apart from the distance between the recipient countries main language and English (L1FDIR), and the L1FDIS and L2 measures. Since L1FDIS is only significant in one model out of three models, and the fact that L2 is contradicting to both our hypothesis and most research studies, we therefore conclude that language has not been a significant explanatory determinant for FDI in Southeast Asia in the time period we have studied. We believe that other factors are more important. This view is supported by the results from our control variables, where we observe that determinants such as GDP and colonial ties are significant in all models, while geographic distance, cultural distance, and institutional distance are significant in some of our models.

These conclusions are not in accordance to a number of research studies on the subject, but there are also studies that open up for more divergent conclusions. Leonidou (2004) and Suarez-Ortega (2003) fond that language differences was not a significant barrier to internationalization. Globalization and the emergence of the use of English as a business language, as well as the rising amount of language and cultural interpreters between home and host countries (Jansson & Sandberg, 2008; Welch, Welch, & Marschan-Piekari, 2001), help to explain our results. Language has also been seen as part of the construct “psychic distance”. Evans & Mavondo (2002) suggest that psychic distance and internationalization may be positive correlated. More extensive research on psychically remote foreign markets, less competition, and unique market opportunities not found in proximate markets may increase incentives to carry out FDI in more distant countries, both geographically, culturally, and linguistic.

One of the weaknesses of this study is that only five recipient countries have been studied. Including more countries in Southeast Asia might have given other results. We could, however, not find data on all the Southeastern countries. However, with the time we had available we were not able to find data on more countries.
Another weakness is that in the Ethnologue dataset, language speakers were divided into two simple categories: L1 speakers and L2 speakers. L1 speakers are native speakers, while L2 speakers are people that have the respective language as a second language. However, we do not know how well the L2 speakers actually understand the language. This problem is probably similar to English in Scandinavia: how many people are fluent in English, and how many only know simple phrases and words? The spectre of the L2 definition is very wide and approximately, and if it was more concrete it might have given us other results. An example of how to define L2 speakers could be: he/she is not a native speaker, but knows how to speak the language on a business level. This definition would probably have changed the number of people counted as “speakers” in the dataset, and several of the “global language” variables in our dataset would have been different, as well as our results.

It would be interesting to do a similar research study as this one with a larger dataset. To really study the impact of language on inward, a dataset with inward FDI from countries all over the world would probably give more interesting results. It would also be interesting to study the effect on FDI of use other global languages. World languages like French and Spanish are spoken by a large number of people in Latin-America and Africa and are more relevant than e.g. Mandarin on a world basis.

As concluded earlier in the discussion part we believe that economic factors, like market opportunities or strategic assets are bigger drivers for FDI than language. As a suggestion for further research, we think well known FDI determinants (e.g. taxes, market opportunities, natural resources, trade openness etc.) and language should be combined in a more extensive analysis to see how important language is in attracting FDI inflow, compared to other explanatory variables. Finally, using percentage of speakers of different languages in different countries rather than dummy variables might provide more precise and interesting results.
References


Individual Reflection Note, Thomas Botnen Bryntesen

The main theme of this master thesis has been our effort to try to explain the potential effect of language on inward FDI in Southeast Asia. We found that almost none of our language explanatory variables are significant, and therefore, does not affect inward FDI. However, one of our variables turned out to be highly significant. This was the variable that represented the linguistic distance from the recipient’s country to English. We therefore concluded that language is not a very important factor when investing into Southeast Asia, and that factors such as GDP, colonial ties, and geographical distance are more important.

The first thing that comes to my mind when hearing the word “international”, is something that extends outside our national borders. These are things that not only affects Norway, but for instance Europe or the whole world. The world is now more globalized than ever, which means it is very important for us as future economists to be aware of international news and issues.

International

Our thesis has an international focus, and we have written about several factors that affects FDI. We found in our thesis that culture significantly affects FDI towards Southeast Asia. This has also been evident in other research studies. Being able to overcome cultural differences is extremely important when choosing to establish oneself in a foreign market. Not knowing about the culture and norms in your target country can be a major pitfall for international companies. We have written briefly about external adaptation and internal integration in our thesis, and both of these are important for any company. In Strategy, we have been taught about how and why companies choose to expand or internationalize. In other classes like Marketing and Consumer Behaviour we have learned about how companies investigate consumer patterns in target countries and how they adapt to their surroundings. This is especially relevant in marketing where companies must be careful how they advertise in different countries. There are several stories on failed ads and negative consequences for a company, because their advertisements broke with cultures in the target country. To thoroughly research the cultures and norms in the target country, as well as the consumption patterns, is therefore very important for any company aiming to carry out an FDI. Internal integration is also important when establishing oneself in a foreign market. You cannot import the whole staff for new subsidiaries, which means you must hire local
employees. To have some knowledge about the working culture is a good idea, so you know what to expect from the local workforce. In “Organization and Management”, we learned that most companies have their own organizational culture and that they want to establish this culture in all their offices. What is important to be aware of, is that this culture will probably not be equally appropriate everywhere as working cultures varies a lot around the world. The local workforce will have to adapt to the organizational culture, but the organization will also have to adapt their culture to the local workers.

I was lucky enough to intern at a company that has been hugely successful in both these aspects. Jotun has become very big in Indonesia, and I believe they have been proficient in their external adaptation and their internal integration. I especially noticed that Jotun have done very well in transferring their core values to Indonesia, as well as managing to keep the Indonesian working culture.

**Innovation**

FDI can benefit innovation in a host country through spillover effects. Spillover effects can arise when, for instance new technologies or other advantages may spill over from the foreign subsidiaries to domestic firms. This is one of the positive effects of FDI which is mentioned in our thesis. Such effects may not only be good for the host country, but may also have a positive effect on the rest of the world later. For all we know, a domestic company may acquire foreign technology and after a while invent something that completely revolutionize a market. Such spillover effects may also positively change the economic landscape of a country. If one or more domestic companies manage to obtain intangible assets from foreign subsidiaries, the domestic firms may be able to increase efficiency and possibly expand. This may again turn into more affordable products for the locals, as well as the possibility of more jobs.

FDI is also important for innovation because many new innovations are internationalized through FDIs. Several big companies have taken their first steps outside of their home country with an FDI. If the company has a good internationalization strategy, and do a good job when researching and adapting international factors, an FDI is a great tool to introduce new innovations to the world.

**Responsibility**

Responsibility is a trait that should be important to every single individual on this planet. In our time, it has become critical for large corporations to take responsibility for their actions.
Our planet has never been more vulnerable than it is now, and the ones with the biggest responsibility for this is large corporations. It should therefore also be their responsibility to lead the world in trying to fix it.

Corporate social responsibility (CSR) is something that we learned about especially in our ethics class. It means that companies are expected to take responsibility for their impact on the people and societies they affect, as well as the environment. The biggest contributors to FDI are some of the biggest companies in the world, and CSR is important to them all. I saw a documentary about the Norwegian Oil Fund not too long ago, and recently, responsibility has become increasingly important to them. Their aim is to do investments that are environmental friendly, and aims to improve our planet for future generations rather than investing in companies and markets than only care about profit. Of course, the aim is to gain a profit from their investment, but their ultimate goal is to gain a profit while helping to improve the world. The Oil Fund is more in the direction of portfolio investments, and not FDI. However, CSR is important for companies carrying out FDIs as well.

Acquiring or building factories is common in FDIs, and there are good and bad ways to do this. Ensuring the domestic workers are working under acceptable conditions and are paid reasonable wages should be expected. There have been several scandals over the years regarding the conditions on several factories in different parts of the world. A case has been that many companies are only renting the factories, and therefore, does not take any responsibility for the what happens at that factory. This should not be the case. The big companies should thoroughly check and take responsibility for what happens at their factories, whether they rent or own them.

Corruption is a common concern in several emerging markets. I especially noticed this in Indonesia, where bribes and forgery are not uncommon. Engaging in anti-corruption can be an opportunity for companies to help improve competitiveness, while also making sure money and resources go to the local communities rather than some dishonest politician or public leader.

Luckily, responsibility is beginning to become increasingly important. We can see on all the multinational companies’ websites that they have explained how they work with CSR. We can also read about their actions towards a better environment, and their work with local and global charities. This a step in the right direction, and we should all learn from this, and take more responsibility for our actions.
Individual Reflection Note, Magnus Braastad Holtan

This master thesis explores how linguistic distance and differences affects the yearly flow of foreign direct investment (FDI) towards five Southeast Asian countries. We explore the less researched relationship between language and FDI flows. We try to understand how much language affects the amount of FDI, compared to other well-known FDI determinants, through a multiple regression analysis. By using multiple regression analysis on a relevant dataset, three main hypotheses are tested:

- Countries in which a global language holds an official status will contribute more FDI than other countries.
- Countries that share a global language with a FDI recipient country will contribute more FDI than other countries.
- Countries that are at a greater linguistic distance from the FDI recipient countries will contribute less FDI than other countries with a smaller linguistic distance.

We have collected the language variables from Ethnologue's data base, while the inward FDI determinant is obtained from the World Bank. In general, our analysis do not support any of the hypothesis. One exception is that linguistic distance from the recipient’s major language to English influences the yearly FDI flow. Other determinants like GDP and colonial ties are on the other hand more significant to explain FDI.

**International**

Globalization describe the growing internationalization of goods and services markets, the financial system, corporations and technology industries and competition. It is a result of human innovation and technological progress. Companies act internationally by increasing their international investment out of mutual interest and the need to stay internationally competitive.

In our thesis we have study FDI, which are one of the key drivers of globalization and a vital factor in influencing the contemporary process of global economic development. We have focused on developing countries in Southeast Asia, who with the initiation of globalization have been witnessing an immense surge of FDI inflows the last 20 years. The major contributors of FDI is western countries. They need to overcome the Liability of
Foreignness. That is a term often characterized as the additional costs of doing business abroad. The key is to minimize transaction cost. Cultural and language differences play a major component of psychic distance which is likely to influence transaction costs.

**Innovation**

FDI can help to bring innovations which are not available in the domestic economy. Innovation leads to renewal or improvement of products and services. FDI has spill-over effects in the form of transfer of foreign technology, managerial capabilities, and improved international competitiveness for domestic companies. Innovation enables companies to increase sales and profit, and the diversity and variety of products in the market. Innovation also increase the ability to distribute creativity for the creation of something new and different.

In the era of globalization, technology competitiveness becomes a vital determinant for economic growth, and we should pay more attention to its beneficial technological spill-over effects when introducing foreign investment than merely its capital resources.

**FDI, development and Corporate responsibility**

**Race to the bottom**

One problem the world face with increasing globalization is that it can lead to a race to the bottom, where countries lower their labour standards, environmental standards, or tax rates in order to attract foreign capital. The race to the bottom hypothesis has two predictions. According to the first prediction of the race to the bottom hypothesis, MNC choose to invest in countries with less restrictive standards. When employment protection rules become less strict, the cost of operating cost falls, and thus multinationals will shift production activities to that country. The response of multinationals to employment protection rules is likely to depend on the type of FDI. For instance, vertical FDI, which is motivated by the desire to take advantage of low foreign factor prices, can be relocated to less expensive locations relatively easily. While horizontal FDI is more likely to respond to changes in labour market standard. Horizontal FDI which is motivated by the desire to access a foreign market, needs to be near the foreign consumers and is thus less mobile.

The second key prediction of the race to the bottom is that countries lower their labour standards in order to undercut their competitors and attract FDI. When the labour standard among your competitors decreases, the foreign host country will lower their own labour standards in response.
Corporate Social Responsibility

The progress of Foreign Direct Investment (FDI) has raised many controversies in the ways these foreign investors conduct their businesses in developing countries. More attention has been given to Corporate Social Responsibility (CSR) in developing countries. Social responsibility in this context means that companies voluntarily integrate environmental concerns and social considerations into their activities. The MNC goes beyond what is required by laws and regulations. The vast majority of MNC are aware that CSR is economically profitable, because it shifts its focus from short-term dividends towards long-term build-up of business and its reputation. Corporate social responsibility includes a sustainable operation of the business itself and is therefore something other than charity or sponsorship. It is important that MNC can point to documentation that show they are taking CSR seriously. Other actions or decisions that could be undertaken in order to strengthen responsibility is strengthening of institutional frameworks that promote corporate responsibility and accountability and exchanging of best practices. Health and sustainable development, safer technologies for drinking water and waste management. Finally, in a globalizing world we need sustainable development that actively promotes full development and effective implementation of intergovernmental agreements and continuous improvement in corporate practices in all countries.
### Table 1
Definition of Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variable</strong></td>
<td></td>
</tr>
<tr>
<td>FDI stock</td>
<td>Total FDI inflow each year from 2009 to 2017 added together.</td>
</tr>
<tr>
<td><strong>Independent variables</strong></td>
<td></td>
</tr>
<tr>
<td>Global Language</td>
<td>Indicates whether one of the global languages, i.e., English or Mandarin, is a major language in the investing country. English Yes=1, No=0 Mandarin Yes=1, No=0</td>
</tr>
<tr>
<td>Shared global language</td>
<td>Indicates whether one or more of the following is true: the investor and recipient have a shared global language, either English or Mandarin. Yes=1, No=0</td>
</tr>
<tr>
<td>Shared English</td>
<td>Indicates whether English is the shared language between investor and recipient. Yes=1, No=0</td>
</tr>
<tr>
<td>Shared Mandarin</td>
<td>Indicates whether Mandarin is the shared language between investor and recipient. Yes=1, No=0</td>
</tr>
<tr>
<td>L1</td>
<td>Genealogical distance between the two closest major languages spoken in the investor and recipient countries.</td>
</tr>
<tr>
<td>L2</td>
<td>Incidence of the recipient country’s major languages in the investor’s country.</td>
</tr>
<tr>
<td>L3</td>
<td>Incidence of the investor country’s major languages in the recipient’s country.</td>
</tr>
<tr>
<td>Linguistic distance from the recipient’s country to English.</td>
<td>Calculated using the same approach as for L1</td>
</tr>
<tr>
<td>Linguistic distance from the investor’s country to English</td>
<td>Calculated using the same approach as for L1</td>
</tr>
</tbody>
</table>
Country control variables

Institutional difference based on indicators including business, labour, monetary, trade, investment, financial, tax burden, fiscal health, property rights, juridical effectiveness, and government spending and integrity.

Cultural distance based on Hofstede’s original cultural dimensions: power distance, individuality, masculinity/femininity, and uncertainty avoidance.

Colonial ties

Indicates if one or more of the following is true: Recipient countries share a colonial link with the investor countries of the empires of the UK, France, Belgium, the Netherlands, Spain or Portugal post-1650. Yes=1, No=0

Geographic distance

Distance between two countries economic capitals, in kilometres. This is measured by Daft Logic’s Advanced Google Maps Distance Calculator.

GDP

The average GDP of the investor country from 2009-2017. The GDP data is obtained from World Bank.

These 12 measures are computed into 1 index number by the Heritage Foundation. We used the formula $\sqrt[12]{\sum_{j=1}^{12} |r_l-l_i|}$, where $r_l$ represents the index number for the recipient’s country, and $l_i$ the index number for investor’s country.

We use Kogut & Singh’s (1988) index.

$$\frac{1}{4} \sum_{j=1}^{4} (C_{m_j} - C_{i_j})^2 / V_j$$

Where $C_{m_j}$ represents the value of the jth indicator of the recipient’s country, and $C_{i_j}$ for the investor’s country. $V_j$ represents the variance of indicator $J$.

Indicates if one or more of the following is true: Recipient countries share a colonial link with the investor countries of the empires of the UK, France, Belgium, the Netherlands, Spain or Portugal post-1650. Yes=1, No=0

Distance between two countries economic capitals, in kilometres. This is measured by Daft Logic’s Advanced Google Maps Distance Calculator.

The average GDP of the investor country from 2009-2017. The GDP data is obtained from World Bank.
<table>
<thead>
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<th></th>
<th>lnFDI__k</th>
<th>Eng2</th>
<th>Man2</th>
<th>Share_sh</th>
<th>Shared_n</th>
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<th>L2</th>
<th>L3</th>
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Table 3
Result from multiple regression models

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<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
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<td>FDI</td>
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<tr>
<td>Constant</td>
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<td>5,984 (0,000)</td>
<td>8,405 (0,000)</td>
<td>7,708 (0,000)</td>
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<td>Mandarin</td>
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<td>Shared Mandarin</td>
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<td>0,927 (0,231)</td>
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<tr>
<td>L1</td>
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<td>L2</td>
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<td>L3</td>
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<td>L1FDIR</td>
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<td>-1,931 (0,000)***</td>
<td>-1,860 (0,000)***</td>
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<td>-0,194 (0,053)</td>
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<tr>
<td>distance</td>
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<td>-0,019 (0,004)**</td>
<td>-0,016 (0,008)**</td>
<td>-0,015 (0,014)*</td>
<td>-0,016 (0,009)**</td>
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<td>Colonial ties</td>
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<td>1,581 (0,001)***</td>
<td>1,024 (0,022)*</td>
<td>1,081 (0,016*)</td>
<td>0,999 (0,027)*</td>
</tr>
<tr>
<td>Institutional</td>
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</tr>
<tr>
<td>distance</td>
<td>0,332 (0,019)*</td>
<td>0,0338 (0,018*)</td>
<td>0,203 (0,144)</td>
<td>0,203 (0,141)</td>
<td>0,185 (0,186)</td>
</tr>
<tr>
<td>Cultural</td>
<td>0,921 (0,000)***</td>
<td>0,861 (0,000)***</td>
<td>0,416 (0,055)</td>
<td>0,448 (0,037*)</td>
<td>0,464 (0,032*)</td>
</tr>
<tr>
<td>GDP</td>
<td>0,276 (0,011*)</td>
<td>0,297 (0,006)**</td>
<td>0,377 (0,000)***</td>
<td>0,385 (0,000)***</td>
<td>0,367 (0,000)***</td>
</tr>
<tr>
<td>Adjusted R-square</td>
<td>0,3286</td>
<td>0,3239</td>
<td>0,4235</td>
<td>0,4312</td>
<td>0,4168</td>
</tr>
<tr>
<td>Observation</td>
<td>114</td>
<td>114</td>
<td>114</td>
<td>114</td>
<td>114</td>
</tr>
</tbody>
</table>

Note: *** p ≤ 0.001; ** p ≤ 0.01; * p ≤ 0.05 and standard errors in brackets.
Model 1 test the effect a Global language has on incoming FDI received. Model 2 test the effect a shared global language has on incoming FDI received. Model 3 test the effect linguistic distance has on incoming FDI received. Model 4 test the effect on incoming FDI measured as a share on the population in the investing country who speaks the official language in the receiver country. Model 5 test the effect on incoming FDI measured as a share of the population in the receiver country who speaks the official language in the investing country.
### Appendix A. Recipient Countries, Geographical Region, and Major Languages

<table>
<thead>
<tr>
<th>Country</th>
<th>Region</th>
<th>Language</th>
<th>Users</th>
<th>Status</th>
<th>Language</th>
<th>Users</th>
<th>Status</th>
<th>Language</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>Asia</td>
<td>Indonesian</td>
<td>77.43%</td>
<td></td>
<td>Javanese</td>
<td>33.00%</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>Asia</td>
<td>Malay</td>
<td>44.85%</td>
<td></td>
<td>English</td>
<td>24.52%</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>Asia</td>
<td>Filipino</td>
<td>44.69%</td>
<td></td>
<td>English</td>
<td>39.74%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>Asia</td>
<td>English</td>
<td>56.01%</td>
<td>X</td>
<td>Mandarin</td>
<td>37.76%</td>
<td></td>
<td>Tagalog</td>
</tr>
<tr>
<td>Thailand</td>
<td>Asia</td>
<td>Thai</td>
<td>88.58%</td>
<td></td>
<td>Thai, Northeast</td>
<td>22.07%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: This table displays up to three major languages in the recipient countries. *Users* represents the portion of the country’s population that speaks the respective language (either as an L1 or L2 user). The major languages are labelled first, second, and third with respect to the number of speakers. A language is considered major if at least 20% of the population uses that language as its first or second language. A language is also considered major if it holds the official status as a statutory working language in that country. If that is the case, it is marked as an X in the *status* column (see Dow & Karunaratna, 2006).
<table>
<thead>
<tr>
<th>Country</th>
<th>Region</th>
<th>First Major Language</th>
<th>Second Major Language</th>
<th>Third Major Language</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Oceania</td>
<td>English</td>
<td>Dutch</td>
<td>English</td>
</tr>
<tr>
<td>Belgium</td>
<td>Europe</td>
<td>French</td>
<td>French</td>
<td>English</td>
</tr>
<tr>
<td>Canada</td>
<td>North America</td>
<td>English</td>
<td>English</td>
<td>English</td>
</tr>
<tr>
<td>China</td>
<td>Asia</td>
<td>Mandarin</td>
<td>English</td>
<td>Standard German</td>
</tr>
<tr>
<td>Denmark</td>
<td>Europe</td>
<td>Danish</td>
<td>English</td>
<td>German</td>
</tr>
<tr>
<td>France</td>
<td>Europe</td>
<td>French</td>
<td>English</td>
<td>47,09%</td>
</tr>
<tr>
<td>Germany</td>
<td>Europe</td>
<td>Standard German</td>
<td>English</td>
<td>55,87%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>Asia</td>
<td>Yue Chinese</td>
<td>Hindi</td>
<td>33,45%</td>
</tr>
<tr>
<td>India</td>
<td>Asia</td>
<td>Indonesian</td>
<td>English</td>
<td>X</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Asia</td>
<td>English</td>
<td>Javanese</td>
<td>X</td>
</tr>
<tr>
<td>Ireland</td>
<td>Europe</td>
<td>Italian</td>
<td>Irish</td>
<td>X</td>
</tr>
<tr>
<td>Italy</td>
<td>Europe</td>
<td>Japanese</td>
<td>English</td>
<td>X</td>
</tr>
<tr>
<td>Japan</td>
<td>Asia</td>
<td>Gulf Arabic</td>
<td>English</td>
<td>X</td>
</tr>
<tr>
<td>Kuwait</td>
<td>Asia</td>
<td>French</td>
<td>English</td>
<td>X</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>Europe</td>
<td>Malay</td>
<td>Standard German</td>
<td>X</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Asia</td>
<td>Dutch</td>
<td>English</td>
<td>Louxembourgish</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Europe</td>
<td>English</td>
<td>English</td>
<td>Standard German</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Oceania</td>
<td>Norwegian</td>
<td>Spanish</td>
<td>70,01%</td>
</tr>
<tr>
<td>Norway</td>
<td>Europe</td>
<td>English</td>
<td>Spanish</td>
<td>88,03%</td>
</tr>
<tr>
<td>Panama</td>
<td>Europe</td>
<td>Filipino</td>
<td>Spanish</td>
<td>89,09%</td>
</tr>
<tr>
<td>Philippines</td>
<td>Asia</td>
<td>English</td>
<td>Spanish</td>
<td>100%</td>
</tr>
<tr>
<td>Qatar</td>
<td>Asia</td>
<td>English</td>
<td>Korean</td>
<td>X</td>
</tr>
<tr>
<td>Singapore</td>
<td>Asia</td>
<td>English</td>
<td>Swedish</td>
<td>Tagalog</td>
</tr>
<tr>
<td>South Korea</td>
<td>Asia</td>
<td>English</td>
<td>Swedish</td>
<td>21,35%</td>
</tr>
<tr>
<td>Spain</td>
<td>Asia</td>
<td>French</td>
<td>English</td>
<td>37,76%</td>
</tr>
<tr>
<td>Sweden</td>
<td>Europe</td>
<td>French</td>
<td>English</td>
<td>26,00%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Europe</td>
<td>Mandarin</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Taiwan</td>
<td>Asia</td>
<td>Thai</td>
<td>Mandarin</td>
<td>54,82%</td>
</tr>
<tr>
<td>Thailand</td>
<td>Asia</td>
<td>Gulf Arabic</td>
<td>German</td>
<td>64,06%</td>
</tr>
<tr>
<td>UAE</td>
<td>Asia</td>
<td>English</td>
<td>Min Nan</td>
<td>22,07%</td>
</tr>
<tr>
<td>UK</td>
<td>Europe</td>
<td>English</td>
<td>English</td>
<td>77,98%</td>
</tr>
<tr>
<td>US</td>
<td>North America</td>
<td>English</td>
<td>English</td>
<td>90,06%</td>
</tr>
</tbody>
</table>
Note: This table displays up to three major languages in the recipient countries. *Users* represents the portion of the country’s population that speaks the respective language (either as an L1 or L2 user). The major languages are labelled first, second, and third with respect to the number of speakers. A language is considered major if at least 20% of the population uses that language as its first or second language. A language is also considered major if it holds the official status as a statutory working language in that country. If that is the case, it is marked as an X in the *status* column (see Dow & Karunaratna, 2006).