

The Geography of Cross-Border Portfolio Investment and Information Accessibility

: The relationship between ICT and FPI *

Soyean Lee

Department of Economics

Seoul National University

Abstract

On the backdrop of increasing international capital mobility, a large volume of research was devoted to dissecting the factors that facilitate the observed pattern of international investment patterns. While many studies focused on the role of distance to examine the significance of information frictions in financial asset trades, little work has considered various factors that may shape information asymmetries between countries, such as the diffusion of the information and communications technology (ICT).

The main purpose of this study is, therefore, to explore how the ease and efficiency of information transmission, namely the “information accessibility” facilitated by the diffusion of the ICT, may affect the cross-border financial asset trades between countries. The product of the ICT diffusion indices of two countries in a pair is used as a proxy for the degree of information accessibility between the two, i.e. a high value of the product implies lower information barrier and higher information transmission between the two countries. Under the gravity model specification, a panel dataset of 67 source countries and 173 host countries from 2001 to 2013 is used to grasp the relationship between the information accessibility and foreign portfolio investments (FPI). Major finding of this paper is that the information accessibility is playing a significant role in determining the geography of FPI alongside conventional factors such as language, bilateral distance and economic size. As it turns out, higher information accessibility positively influences FPI, while the magnitude of the effect may increase as the level of FPI holdings approach zero, indicating that information barrier is a stronger deterrence at the near-zero level of asset trades.

Keywords: ICT, Gravity Model, Information Asymmetries, Cross-border Asset Trades, FPI

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