**Abstract**

Employing a panel dataset of bilateral foreign direct investment (FDI) between 31 Asian countries and territories over the period 2001-2012, we estimate alternative versions of the knowledge-capital model, in which vertical and horizontal FDI can co-exist in equilibrium. This model has been widely applied to developed countries but rarely to developing economies and not yet to intra-Asian FDI. We consider an array of alternative estimation methods, including methods that deal with zero values for FDI that could bias results if purged. Our ﬁndings suggest that vertical FDI is the dominant type, driven by locating investment in Asian economies with relatively abundant low-cost unskilled labour. However, we find overall little empirical evidence in support of the knowledge-capital model’s predictions. In contrast, we find that a gravity model explains FDI among Asian countries better than the knowledge-capital model and therefore is a more suitable vehicle for future research.

**Decision Letter - Revise: 20 June 2020**

Ref: ECMODE\_2020\_72\_R1  
Title: What drives bilateral foreign direct investment among Asian economies?  
Journal: Economic Modelling

Dear Professor Haug,

Thank you for submitting your manuscript to Economic Modelling. We have completed the review of your manuscript. A summary is appended below. You are invited to revise and resubmit the paper, addressing further editorial comments/concerns.

Please note that EM is a general-interest journal (neither pure theoretical/mathematical nor pure statistical papers can be published). You need to make your big economic arguments crystal clear for the paper to be taken forward for publication. Please do not use any acronym or reference in the title nor in the abstract.

While revising the paper please consider the editor's comments carefully. I look forward to receiving your detailed response on editor(s) comments, and your revised manuscript.

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I look forward to receiving your revised manuscript as soon as possible.

Kind regards,

Professor Sushanta Mallick  
Editor  
Economic Modelling

**Comments from the editors and reviewers:**  
-**Editor**  
  
  -

You did not take my previous comments seriously. Your tables contain coefficients which are too large. You should re-estimate with variables in logs as you have done in Tables A5-A6. Otherwise those 4-digit coefficients are meaningless to report. Your abstract and highlights are still poorly written and remain technical. You do not say why you are finding those results. The journal no longer publishes pure statistical correlations. Unless you identify what is the problem that you have solved through your research and how there is a correlation between the two variables of interest, I am afraid I cannot take this paper forward. We no longer publish pure statistical correlations, whatever be the methodology. You may take a look at the following recent paper for insights in the general economics literature in order to connect to the wider debate on innovation and vertical/horizontal FDI at industry-level:

Bournakis, I., Christopoulos, D. and Mallick, S. (2018), Knowledge Spillovers and Output Per Worker: An Industry-Level Analysis for OECD Countries. Economic Inquiry, 56 (2): 1028–1046. doi:10.1111/ecin.12458

Please note that the journal is a general-interest journal; you need to make it as clear as possible in explaining the mechanism or channel for your main finding both in the abstract and in highlights, which is very important for a paper to have impact. General readers do not know what these models are, unless you express the idea clearly in an intuitive sense and via introducing interaction terms relative to a benchmark model. People only spend one or two minutes to read an abstract; if they do not see the novelty within that time, they tend to ignore a paper. Please make sure you highlight the big ideas in a clear and succinct manner that is informative, novel, logical and engaging, which I consider as one of the ways to improve citations of all the papers we publish.

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