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Assessing the impact of geopolitical risks on foreign direct investment in the ASEAN+3

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ABSTRACT

This research examines the impact of geopolitical risk and the geopolitical risk gap between the United States and ASEAN+3 countries on foreign direct investment inflows to ASEAN+3 countries from 1986 to 2023. The panel data regression method is employed. The generalized least squares model is the most suitable and practical approach. The regression results indicate that the geopolitical risk gap between the United States and ASEAN+3 countries have a significant impact on foreign direct investment inflows to these countries, whereas the geopolitical risk of each country does not affect foreign direct investment. Additionally, some control variables, including economic growth, interest rates, investment in research and development, and trade, also influence foreign direct investment. This paper provides evidence of changes in foreign direct investment under the impact of the geopolitical risk gap between ASEAN+3 countries and the United States, demonstrating the impact of geopolitical risks in developed countries on developing countries. The research results suggest that trade and diplomatic policies in ASEAN+3 countries should be employed to mitigate the adverse impact of the geopolitical risk gap.

Contribution/Originality: The paper contributes to empirical research on the impact of geopolitical risk on FDI. It presents both theoretical and empirical results regarding the effect of the geopolitical risk gap between a country and the US on FDI. The research findings can be used to propose recommendations to help a country attract FDI.

1. INTRODUCTION

Foreign direct investment (FDI) is an investment activity of foreign investors in another country to exploit advantages and seek profits (OECD (Organisation for Economic Co-operation and Development), 1996). The global openness and close integration of countries encourage the change in FDI flow. FDI capital is important in supporting economic growth, especially in a developing country. FDI supports domestic enterprises in expanding production and business activities, creating jobs, increasing productivity through investment, and transferring machinery and technology, thereby promoting output and increasing profits (Quazi, 2007; Smith, 2017). FDI helps improve corporate governance issues in addition to direct economic benefits (Elkomy, Ingham, & Read, 2015). Foreign business administrators participating in corporate governance contribute to improving the quality of governance.

On the macro level, FDI promotes economic growth by addressing the capital shortage problem in production investment, creating strong growth momentum for enterprises, and increasing tax revenue for the state budget. Additionally, FDI capital flows between countries have contributed to improving the efficiency of capital use by leveraging comparative advantages, thereby supporting the completion and development of the global supply chain (UNCTAD, 2019).

Different countries attract varying amounts of FDI. The ability to attract FDI depends on macroeconomic factors such as economic growth rate, financial system stability, interest rates, inflation, and trade openness. FDI investors often seek countries with favorable investment conditions and low volatility. Countries with extensive trade openness have an advantage in attracting FDI. However, non-economic factors are increasingly being studied when examining determinants of FDI, alongside macroeconomic factors. Global political instability and tensions between countries not only influence FDI flows into those nations but also have spillover effects on others, due to bilateral and multilateral cooperation agreements and the influence of major countries, stemming from today's interconnected world (Jens, 2017; Singh, Correa da Cunha, & Mangal, 2023).

The world has recently experienced a high level of geopolitical risk, with conflicts between major countries, wars, terrorism, and trade wars occurring frequently, leading to global instability. This has significantly impacted the flow of investment capital due to increased risks worldwide. Uncertainty and instability have raised the cost of capital investment, particularly in countries affected by geopolitical risks (Bussy & Zheng, 2023; Caldara & Iacoviello, 2022). Geopolitical risks are political and military disruptions or risks related to war, terrorist acts, and tensions between countries that affect the normal and peaceful course of international relations, which can impact countries' economic and financial stability worldwide (Caldara & Iacoviello, 2022). FDI investors are often very concerned about geopolitical risks due to their unpredictable and irregular nature. Geopolitical risks can occur at any time, causing investment plans, risk, and profit targets of FDI investors to change and be disrupted. The difficulty in planning investment goals and plans, along with the unpredictable investment environment, will affect FDI investment decisions (Singh et al., 2023).

Geopolitical risk, in a broad sense, refers to potential political, social, economic, or military risks to the stability and profitability of a region or country. Relations between countries, governments, or international organizations can directly impact business operations and investment activities. These geopolitical events can disrupt business production processes, disturb global supply chains, slow down the flow of goods, increase production and business costs, and reduce business profits (Kotcharin & Maneenop, 2020). In addition, geopolitical risks can impact financial market stability, affecting the cost of capital, liquidity, and market profitability (Homan, 2006).

GPR is an important variable that strongly influences international investment strategies. Enterprises must consider economic efficiency and assess geopolitical risks at home and abroad, especially in the current context of global instability. A country's GPR level not only directly affects its ability to attract FDI but can also change FDI flows between countries through spillover effects from significant countries with global influence. Under the impact of ongoing geopolitical risks globally, foreign investors are looking for potential destinations for FDI capital flows with low operating and production costs and available supply chains. Southeast Asian countries are emerging as suitable choices as they have quickly controlled the COVID-19 pandemic, minimized damage, and restored their economies. Countries in this region also promote cooperation to facilitate investors in the movement of goods within the bloc and strive to create the most competitive environment to attract FDI. Additionally, each country in the region has its own policies to attract FDI.

The paper examines the "Geopolitical Risk Distance" the variation in GPR between two nations as well as the effects of GPR in each country. The author analyzes the GPR distance between ASEAN+3 countries and the United States, a country with profound influence on the region. The central question is whether the difference in the level of geopolitical risk between the United States and an ASEAN+3 country affects FDI flows into those countries. Historically, the United States has been the dominant investment power in this region. This study aims to test whether the GPR gap between the US and ASEAN+3 countries affects FDI inflows to those countries.

There are a few studies that have examined the impact of geopolitical risks on FDI inflows, but the results vary. This article contributes to the empirical understanding of the impact of geopolitical risks on FDI inflows. Additionally, it provides a theoretical foundation and empirical research results on the impact of the geopolitical risk gap between ASEAN+3 countries and the United States on FDI. Research on the impact of the geopolitical risk gap

on FDI is currently limited. The findings of this article are meaningful for making recommendations to investors and for countries developing FDI attraction strategies. This paper is structured into five parts: Part 1 is the introduction; Part 2 summarizes studies on FDI and the impact of geopolitical risks; Part 3 introduces the database and research methods; Part 4 presents the empirical research results; and Part 5 offers the conclusion and policy implications.

2. LITERATURE REVIEW

FDI is one of the key factors that promote economic growth, technology transfer, and job creation, especially in developing countries (OECD, 2002). Several factors are believed to influence a country's FDI. Dondashe and Phiri (2018) in their study on the determinants of FDI using data from South African economies from 1994 to 2016, employed the ARDL model to co-integrate and identify the macroeconomic factors that affect FDI, including GDP per capita, budget size, real interest rate, and terms of trade. However, FDI decisions are not only dependent on economic factors such as labor costs, market size, or infrastructure but are also strongly influenced by geopolitical risk, which is an increasingly important variable in the current unstable global context (Cheng & Chiu, 2018; Hoque & Zaidi, 2020).

Many previous studies have demonstrated the negative impact of geopolitical risks on FDI (Arellano, Bai, & Kehoe, 2019; Choi & Furceri, 2019; Christiano, Motto, & Rostagno, 2014). Increased geopolitical risks reduce the investment demand of foreign investors due to economic, political, and social instability in the countries concerned (Bussy & Zheng, 2023). When geopolitical risks increase, unexpected policy changes, investment environments, or production disruptions may occur, causing losses to FDI investors. Additionally, conflicts between countries can disrupt global supply chains and affect import and export activities, leading to losses for businesses in particular and the economy in general (Thakkar & Ayub, 2022; Yang, Zhang, Yi, & Peng, 2021). FDI investors only make investments when they understand and perceive the risks and opportunities in the countries receiving capital. Shocks or geopolitical fluctuations can change investors' decisions (Kobrin, 1979).

Foreign investors are often at a disadvantage compared to domestic investors in understanding the politics and society of the host country, so fluctuations in geopolitical risks can lead to withdrawal or diversion of investments (Aizenman & Spiegel, 2006). Liss (2019) in his study demonstrated that a good understanding of politics and laws affects the investment decisions of US multinational corporations in Mexico. Dissanayake, Mehrotra, and Wu (2018) also demonstrated that high GPR reduces FDI investment due to lower expected profits.

Bussy and Zheng (2023) also assert that GPR weakens the credibility and effectiveness of public institutions, making international investors more cautious about countries with high GPR.

2.1. Mechanisms of GPR Impact on FDI

Dissanayake et al. (2018) and Cuervo-Cazurra and Narula (2015) argue that GPR reduces domestic investment and increases the tendency to invest abroad to avoid systemic risks in the host country. GPR affects FDI flows through three main mechanisms.

First, when GPR increases, investors face the risk of changes in laws, tax policies, or even asset nationalization, which forces them to demand higher rates of return to compensate for the risk, making many investment projects unviable (Wang, Liu, & Wang, 2020).

Second, GPR reduces confidence and increases the tendency to invest defensively, focusing on less risky markets (Bussy & Zheng, 2023). Domestic firms with high GPR tend to grow outward FDI to diversify risks and protect assets. In contrast, international investors will favor countries with low GPR as safe destinations (Bloom, 2009). Bloom (2009) points out that GPR shocks, such as the Cuban missile crisis or the 9 November event, cause labor and capital adjustment costs to skyrocket, delaying investment decisions. Gao, Wang, and Che (2018) demonstrate that historical conflicts and political tensions can significantly influence investor sentiment, leading to a decline in FDI inflows, as exemplified by Japan reducing FDI in China due to historical and sovereignty tensions.

The Brexit event has impacted the planning and FDI investment processes. Investors have begun to pay more attention to geopolitical risks when evaluating investment opportunities, considering this as a factor that will impact their operations and business environment (Caldara & Iacoviello, 2022). Large institutional investors are now considering the relationship between GPR and the market as a way to guide their investment strategies. GPR, such as uncertainty in international relations, political leadership, and changes in global policies, drives the current volatility in financial markets. FDI investment activities are gradually adjusted to the volatility of geopolitical risks in countries and regions. Some institutional and large investors often consider uncertainty in the economic outlook and business environment when making investment decisions. Geopolitical conflicts can adversely affect economic growth by reducing aggregate demand, increasing costs and risks, and decreasing investment returns. Bloom (2009) and Christiano et al. (2014) demonstrated the "wait and see" strategy of investors and consumers due to uncertainty. Moreover, several studies have confirmed that uncertainty negatively affects production, employment, trade, and economic growth (Baker, Bloom, & Davis, 2016; Ghosal & Ye, 2019; Hossain & Sultana, 2022; Tajaddini & Gholipour, 2021).

Empirical research results from numerous previous studies have demonstrated the negative impact of geopolitical risks on FDI in a country. Research in the US by Azzimonti (2018) and Blomberg and Mody (2005) all showed similar results. Geopolitical risks reduce investors' confidence in a stable investment environment, causing capital flows to shift to safer countries or regions, reducing FDI inflows in these countries. Some investors believe that geopolitical risks reduce aggregate demand, reducing the profits of multinational corporations (Ruch, 2020). In addition, FDI investors often increase their level of caution when there is a geopolitical risk with hedging options, such as insurance or reserves, which increases the cost of capital (Drobetz, Gavriilidis, Krokida, & Tsouknidis, 2020). According to the research results of Gao et al. (2018), the conflict between China and Japan has reduced Japan's FDI in China due to concerns about exchange rate risks. The findings of Nguyen, Pham, and Sala (2022) are similar. The study was conducted on data from 1985 to 2019 in 18 emerging markets. Fania, Yan, Kuyon, and Djeri (2020) also found similar results when empirically testing 16 countries in the West African region from 2011 to 2017. In addition, Luo (2021) also found the impact of regional GPR and FDI, demonstrating the different impacts of regional GPR on FDI in each country.

Studies on the impact of geopolitical risks on FDI have been conducted using different methods, such as the Granger causality test and lagged auto-regression in Afşar, Doğan, and Doğan (2021) with Turkish data for the period 1998-2018; the GMM model used by Soltani, Triki, Ghandri, and Abderzag (2021) with data in Middle Eastern and North African countries; and the maximum likelihood method for the gravity model applied by Thakkar and Ayub (2022) for the study on global data from 2001 to 2012.

2.2. GPR can lead to the "Investment Diversion" Effect

Many recent studies have mentioned the investment diversion effect under the impact of GPR (Tran, 2024). When a country or region experiences a geopolitical crisis, FDI shifts to neighboring countries with similar but more stable trade links. Cheng and Chiu (2018) pointed out that investors compare risks between countries in the same region or between alternative partners. When the GPR level in a significant power, such as the US or China increases, investors may consider shifting FDI to developing countries with lower risks, creating new capital inflows to other countries. This is also the basis for forming the "GPR Distance" concept in this study, the difference in geopolitical risks between the two countries. The author argues that the larger the gap (i.e., the host country has a lower GPR), the more likely the host country is to attract FDI from global investors looking for a safer environment.

2.3. Geopolitical Risk Distance (GPR Distance)

Most traditional research in international business and foreign investment focuses on analyzing the impact of host country risk on FDI inflows. However, in the context of globalization, companies not only consider internal

risks but also compare the risk levels between different countries, thereby making strategic capital allocation decisions.

The study by Correa da Cunha, Singh, and Amal (2024) introduces a groundbreaking new concept, Geopolitical Risk Distance (GPR distance), the geopolitical risk distance between two countries, specifically between a host country in Latin America and two major economies with global influence the United States and China, to study the impact of GPR distance on FDI inflows to Latin American countries. The authors measure the difference between the geopolitical risk index of the United States and China for each country in the Latin American region and examine the impact of this difference on FDI. The consideration of the impact of this geopolitical risk gap comes from studying the distance in international business between countries arising from differences in culture, technology, institutions, and geopolitical risks. This can positively or negatively impact firms' investment and production activities (Hutzschenreuter, Kleindienst, & Lange, 2016). Countries with a large geopolitical risk gap with the US and China are more likely to attract FDI while a negative GPR gap indicates that these countries are less attractive to FDI sources.

The significant difference is that GPR distance can be positive when the host country is perceived as "less risky" than major economies during periods of instability.

3. DATA, METHODOLOGY, AND RESEARCH MODEL

3.1. Data and Variables in the Model

The study uses panel data from 8 ASEAN+3 countries from 1986 to 2023 to assess the impact of geopolitical risks and the geopolitical risk gap on FDI flows. The data is sourced from 1986, a period when some countries began to strongly integrate with the region and the world, including Vietnam. ASEAN+3, comprising ASEAN countries, China, Japan, and South Korea, was established with the aim of strengthening trade cooperation in various fields, including energy, transportation, and information and communication technology. The selected countries represent emerging economies in the region with reliable and comprehensive data sources, ensuring a robust research sample. Developed countries tend to invest more in these nations. Data collection extends up to 2023, as some variables lack sufficient annual data beyond this year.

3.1.1. Dependent Variable

The dependent variable is FDI, net capital inflows received annually, taken from the World Bank website. This is net capital inflows over GDP, determined by subtracting capital outflows from gross new investment.

3.1.2. Independent Variables

Independent variables include the GPR index, GPR distance from the US. This study uses the GPR index developed by Caldara and Iacoviello (2022), which is based on text data from dozens of major international newspapers. The GPR index measures "the risk associated with war, terrorist acts, and interstate tensions that affect the normal and peaceful course of international relations" (Caldara & Iacoviello, 2022). This index measures the frequency of occurrence of keywords, such as war, military tensions, terrorist threat, etc., in newspaper articles. This GPR index reflects market perceptions (perceived risk), unlike dummy variables or the number of conflict events. This factor is increasingly appreciated because it directly affects business behavior regardless of whether the risk actually occurs (Bloom, 2009). This study used the 12-month GPRI to obtain the annual GPRI.

Geopolitical risks related to war, terrorism, and tensions between countries threaten foreign direct investments by increasing risks and increasing the costs of doing business and transacting globally (Singh et al., 2023). Geopolitical risks can negatively impact the stability of national financial systems, increasing interest rates, commodity prices, raw materials, and global trade chains (Singh et al., 2023). This reduces business confidence and investment. Meanwhile, FDI inflows tend to be concentrated in low-risk countries (Dissanayake et al., 2018; Thakkar

& Ayub, 2022). Investment decisions are increasingly driven by geopolitical risks rather than traditional economic factors.

Therefore, geopolitical risks negatively impact FDI by increasing risk and uncertainty.

GPR Gap: The GPR gap is the measure of the difference between the GPR in the United States and each ASEAN+3 country. This variable is calculated by subtracting the GPR of the ASEAN+3 countries from the GPR of the United States for each period (year). Positive numbers (gaps) may be associated with relatively high GPR in the United States compared to ASEAN+3. Negative numbers are associated with lower GPR in the United States than in the ASEAN+3 countries.

The trade relationship between countries is based on the volume and profit of trade and the geographical distance between countries, according to the first economic models in the mid-20th century. As the economy develops more strongly along with multilateral and bilateral cooperation agreements between countries, geopolitical factors begin to be mentioned by researchers. The larger the difference in geopolitical distance, the larger the trade distance between countries (Nguyen & Nguyen, 2024). Countries within the same economic region, geographically close, often compete to attract foreign direct investment flows. This phenomenon is also observed in the ASEAN region. Meanwhile, the United States is one of the countries with the most significant foreign direct investment abroad. The geopolitical risk gap between countries in the region and the United States can influence investors' decisions and competition to attract FDI, thereby affecting investment flows. A lower geopolitical risk gap may positively impact FDI, as reduced risks attract more investment (Correa da Cunha et al., 2024).

3.1.3. Control Variables

In addition to the GPR variable, the author included some control variables in the model. Macroeconomic factors that affect FDI include GDP growth rate (Blonigen, 2005), trade openness (Bouoiyour, 2007), real interest rate (Rathnayake et al., 2023), per capita income and spending on research and development (R&D).

The larger the economy, the higher the purchasing power and domestic demand that attract FDI. Countries with larger and expanding economies will have greater consumption potential and production scale, making them attractive to market-seeking FDI. Sichei and Kinyondo (2012) found that real GDP growth has a positive and statistically significant impact on FDI inflows to African countries, supporting this hypothesis.

The study uses the GDP per capita growth rate to assess a country's level of development (World Bank, 2019). For FDI investors, purchasing power in the investing country plays an important role in the investment decision. A high GDP per capita will help this country attract more FDI (Asiedu, 2002). The study uses the logarithmic form of the variable to ensure the normal distribution of the results.

Trade openness also affects a country's FDI. Trade openness (total exports and imports over GDP) reflects global economic integration. More open economies are more attractive to international investors, especially export-oriented FDI. Open economies reduce transaction costs and are more integrated into global value chains. While some studies confirm a positive correlation (Asiedu, 2002; Sichei & Kinyondo, 2012), this effect is statistically insignificant in dynamic panel models after accounting for agglomeration effects. In Kumari and Sharma (2017) model, trade openness has a positive and statistically significant coefficient, indicating a positive impact on FDI.

Real interest rates are nominal interest rates adjusted for inflation. They represent the real cost of capital. High real interest rates are likely to increase the cost of capital, reducing investment attractiveness. High inflation also diminishes the attractiveness of FDI (Hoang & Bui, 2015; Kumari & Sharma, 2017).

In modern economic theory, research and development (R&D) spending is often considered a core factor in improving national technological capabilities and productivity. For foreign investors, R&D reflects technology absorptive capacity, the will to innovate, and an innovation-supportive environment attractive conditions for establishing or expanding investment (Kumari & Sharma, 2017). R&D is measured by the ratio of R&D spending to

GDP (% GDP). According to Dunning (1981), a country with high technological capabilities will create locational advantages, thereby increasing its ability to receive high-tech FDI inflows.

Table 1 presents all variables, their descriptions and their sources in the research model.

Table 1. Description of variables used in the model

Variables	Abbreviation	Description	Sources
Foreign Direct Investment	FDI	Net Foreign Direct Investment (% GDP)	World Bank
Gross domestic product	GDP	The total value of all final goods and services produced by a country or region in a given period of time.	World Bank
GDP per capita	GDPpc	GDP per capita	World Bank
Interest rate	IR	Real interest rate	World Bank
Trade	Trade	Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product.	World Bank
R&D	RD	Research and development expenditure (% GDP)	World Bank
Geopolitical risk index	GPR	The average 12-month GPR in a year.	Correa da Cunha et al. (2024)
Geopolitical risk index gap with the US	GGPRUS	The average gap of GPR between the host country and the US in a year.	Correa da Cunha et al. (2024)

3.2. Research Model and Hypothesis

The author based on the above-mentioned theoretical basis and previous research by Correa da Cunha et al. (2024), Hossain, Voumik, Ahmed, Alam, and Tasmim (2024) and Truong, Friday, and Pham (2024) to build a research model to quantitatively assess the impact of GPR and GPR gap of ASEAN+3 countries with the US on FDI inflows to ASEAN+3 countries.

$$FDI = \beta + \beta_1 x\, GDP + \beta_2\, x\, logGDPpc + \beta_3\, x\, RD + \beta_4\, x\, IR + \beta_5\, x\, Trade + \beta_6\, x\, logGPR + \beta_7\, x\, logGGPRUS + \epsilon$$

a_i: Constant.

$\beta_i, \ldots, \beta_7$: Regression coefficient.

e: Residual.

The study builds two main hypotheses to test the relationship between GPR, the GPR gap with the US, and FDI inflows to ASEAN+3 countries based on the presented theoretical basis.

Research hypothesis H_{1a}: A country's GPR has a negative impact on FDI inflows to that country.

Research hypothesis H_{1b}: The GPR gap between the US and the host country in ASEAN+3 positively impacts FDI inflows to that country.

Testing the above two hypotheses allows us to assess whether instability in a global power like the US creates opportunities to attract FDI to developing economies.

3.2.1. Methodology

The data collected consists of panel data from 8 ASEAN countries plus 3 additional countries over a period of 38 years. The author employs panel data processing methods. Data entry and processing are conducted using Stata software. The author performs descriptive statistics for each variable in the model to clearly understand the characteristics and properties of the data, and simultaneously analyzes the correlation to determine the relationships between variables in the research model before conducting regressions. A high correlation between variables can influence the regression results of the model. The fixed effects model (FEM), the random effects model (REM), and the GLS model are used to assess the impact of GPR and the GPR distance between each country and the United States on FDI inflows.

The ordinary least squares regression method is the basic approach to estimate the relationship between dependent and independent variables. The fixed effects model helps control for unobserved factors that may vary across countries but do not change over time. The random effects model assumes that unobserved factors are random and have no relationship with the independent variable. The Hausman test is used to select the more appropriate model among these options. Model defect tests are performed to evaluate error variance and autocorrelation, and to correct model defects with suitable methods.

4. RESEARCH RESULTS AND DISCUSSION

The relationships between variables in the model are shown in Table 2.

Table 2. Correlations between variables in the model

Variables	FDI	logGPR	GDP	logGDPpc	RD	IR	Trade	logGGPRUS
FDI	1.0000							
logGPR	-0.3461	1.0000						
GDP	0.3430	-0.0035	1.0000					
logGDPpc	-0.2460	0.4197	-0.3763	1.0000				
RD	-0.3790	0.6935	-0.2706	0.8131	1.0000			
IR	-0.1822	-0.1765	0.0750	-0.2723	-0.2203	1.0000		
Trade	0.5580	-0.5267	0.0355	-0.0633	-0.3135	-0.1247	1.0000	
logGGPRUS	-0.0333	-0.0509	0.2290	-0.1003	-0.1470	0.0756	0.0741	1.0000

The pairs of independent variables in the model all have low correlation coefficients with absolute values less than 0.8, thus limiting the phenomenon of multicollinearity in the model.

Model selection tests were used to evaluate and select the appropriate model. The Hausman test results proved that the FEM fixed-effects model was the most suitable. However, the results of the heteroscedasticity and autocorrelation tests (see Table 3) showed that the FEM model exhibited heteroscedasticity and autocorrelation.

Table 3. Results of testing for heteroscedasticity and autocorrelation

Test	P- value	Conclusion
Heteroscedasticity	0.0000	Yes
Autocorrelation	0.0003	Yes

The GLS model is used for the results to overcome the phenomenon of heteroscedasticity and autocorrelation of the FEM model as shown in Table 4.

Table 4. GLS model estimation results

Variables	GLS	
	Coeff	P- value
logGPR	0.125010	0.149
GDP	0.0605	0.000(***)
logGDPpc	0.07803	0.479
RD	-0.44806	0.000(***)
IR	-0.0315	0.020(**)
Trade	0.0192	0.000(***)
logGGPRUS	-0.0386	0.050(**)
_cons	0.864	0.349

Note: Significant level: ** 5%; *** 1%.

Looking at the GLS regression results, logGPR has no impact on a country's FDI with a p-value > 0.1. However, the gap between the US GPR and countries in the ASEAN+3 region has a negative effect on FDI inflows into the

countries in the region, with a significance level of 5%. ASEAN+3 countries often have low geopolitical risks and low global spillover risks, so they are less likely to impact FDI. When the US GPR is higher than the host country's GPR, this leads to a decrease in FDI inflows into the host country. This research result differs from Correa da Cunha et al. (2024). According to the research hypothesis, investors will reallocate their wealth, remove their investments from the US, and relocate to safer nations like host countries when the US faces more geopolitical dangers. However, the empirical data demonstrate the opposite. This can be explained by the global uncertainty that permeates when the US GPR rises. The US GPR often reflects global tensions, such as US military involvement, conflicts between major powers, etc. When the US GPR rises, it represents a geopolitical shock across the system, not just in the US itself. Investors tend to retreat globally in such times, adopting a "wait and see" approach. A high US GPR signals global uncertainty, not a driver but a drag on investment. US investors may respond to a higher domestic GPR by reallocating their portfolios to safer assets rather than seeking investment opportunities abroad, as the US is one of the largest sources of FDI globally. Additionally, global geopolitical tensions reflected in a higher US GPR often lead to tightening global credit conditions. Companies and banks may face higher financing costs, limiting cross-border capital flows, including FDI. Furthermore, high GPRs in the US affect global investor sentiment. Thus, while geopolitical risks in the US may suggest capital outflows, they signal broader global uncertainty. As a result, multinational companies and investors tend to adopt a more cautious stance, reducing FDI flows even to relatively safer host countries.

In addition, the control variables, GDP and trade positively impact the dependent variable FDI at the 1% significance level. This result is similar to the research results of Asiedu (2002), Correa da Cunha et al. (2024), Hossain et al. (2024), and Truong et al. (2024). The logGDPpc variable positively impacts FDI but is not statistically significant with a large p-value.

Spending on investment and development and real interest rates negatively impact FDI at the significance levels of 1% and 5%. When spending on investment and development is high, FDI decreases. This result is contrary to the research findings of Kumari and Sharma (2017), which demonstrated that high investment in science and technology contributes to attracting FDI. The negative impact of R&D and FDI variables can be explained by the nature of FDI in developing countries. Most of the spending on R&D in these countries is often low. Technological innovation has not been widely applied to attract foreign investors. FDI flows into these countries mainly to seek cheap natural and labor resources. Multinational companies often invest in technology and management to improve operational efficiency.

High interest rates reduce FDI in a country with a beta value of -0.03 and a significance level of 10%. This result is similar to the results in the study of Hoang and Bui (2015) and Kumari and Sharma (2017).

The regression results from the GLS model above indicate the negative impact of the geopolitical risk gap between ASEAN+3 countries and the US on FDI. Additionally, they demonstrate how other macroeconomic factors, such as economic growth rate, R&D spending, interest rates, and trade, influence FDI.

5. CONCLUSION AND POLICY IMPLICATIONS

This paper examines the impact of geopolitical risk on FDI in ASEAN+3 countries over the period 1986-2023 using panel data and GLS regression models. The results demonstrate that, although the effects of geopolitical risk on FDI are not statistically significant, the GPR gap between the US and ASEAN+3 countries has a negative impact on FDI.

This study provides evidence on how the Geopolitical Risk Gap (GPR) affects foreign direct investment (FDI) inflows to ASEAN+3 countries. It demonstrates how FDI flows change based on variations in the GPR gap between countries and reflects the impact of geopolitical risk in major countries on developing nations. Although this research contributes to understanding the effects of the GPR gap on FDI patterns, its scope is limited to the ASEAN+3 region with restricted data sources. Future research could expand the investigation to different contexts and regions and

further explore the mechanisms that cause changes in GPR spillovers to enhance the robustness of the findings and assumptions.

In terms of policy, the author recommends that countries minimize geopolitical risks by improving institutions, enhancing governance capacity, investing in infrastructure, and developing bilateral investment protection agreements. Additionally, trade and diplomatic policies should be considered to avoid adverse substitution effects on FDI.

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