

GEOPOLITICAL UNCERTAINTY: SECTORAL DYNAMICS IN VIETNAM'S OUTWARD FOREIGN DIRECT INVESTMENT

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ARTICLE INFO	ABSTRACT
<p>Received: 19/12/2024</p> <p>Revised: 27/3/2025</p> <p>Published: 28/3/2025</p>	<p>This study investigates the impact of geopolitical risks on Vietnamese outward foreign direct investment at the sectoral level during the period from 2010 to 2022. The analysis employs a Least square dummy variable regression model. The findings reveal that domestic geopolitical risks tend to increase Vietnamese outward foreign direct investment, while global geopolitical risks- particularly those associated with the United States and China- exert a negative influence. The contributions of this research are threefold: (i) examining the effects of geopolitical uncertainty on outward foreign direct investment at the sectoral level; (ii) highlighting the influence of geopolitical risks originating from major global powers, such as China and the United States, on Vietnam's economic dynamics; and (iii) providing new insights and practical policy recommendations to enhance the effectiveness of Vietnamese outward foreign direct investment strategies amid rising global uncertainty.</p>
<p>KEYWORDS</p> <p>Geopolitical Risk Outward Foreign Direct Investment Investment decision Vietnam Least square dummy variable regression model</p>	

ẢNH HƯỞNG CỦA RỦI RO ĐỊA CHÍNH TRỊ TỚI DÒNG VỐN ĐẦU TƯ TRỰC TIẾP RA NƯỚC NGOÀI CỦA VIỆT NAM: PHÂN TÍCH THỰC NGHIỆM TỪ CẤP ĐỘ NGÀNH

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THÔNG TIN BÀI BÁO	TÓM TẮT
<p>Ngày nhận bài: 19/12/2024</p> <p>Ngày hoàn thiện: 27/3/2025</p> <p>Ngày đăng: 28/3/2025</p>	<p>Nghiên cứu này phân tích tác động của rủi ro địa chính trị tới dòng vốn đầu tư trực tiếp ra nước ngoài của Việt Nam ở cấp độ ngành trong giai đoạn từ năm 2010 đến năm 2022. Phương pháp hồi quy sử dụng trong nghiên cứu là mô hình bình phương tối thiểu với biến giả. Kết quả cho thấy rủi ro địa chính trị trong nước có xu hướng làm tăng dòng vốn đầu tư trực tiếp ra nước ngoài của Việt Nam, trong khi các rủi ro địa chính trị toàn cầu- đặc biệt là từ Hoa Kỳ và Trung Quốc- lại tác động tiêu cực tới hoạt động này. Nghiên cứu đóng góp vào lĩnh vực theo ba khía cạnh chính: (i) phân tích tác động của bất định địa chính trị đối với đầu tư trực tiếp ra nước ngoài ở cấp ngành; (ii) làm rõ ảnh hưởng của rủi ro địa chính trị từ các cường quốc như Trung Quốc và Hoa Kỳ đến các khía cạnh khác nhau của nền kinh tế Việt Nam; và (iii) cung cấp những góc nhìn mới cùng các khuyến nghị chính sách thiết thực nhằm nâng cao hiệu quả chiến lược đầu tư trực tiếp ra nước ngoài của Việt Nam trong bối cảnh bất ổn toàn cầu gia tăng.</p>
<p>TỪ KHÓA</p> <p>Rủi ro địa chính trị Đầu tư trực tiếp ra nước ngoài Quyết định đầu tư Việt Nam Mô hình bình phương tối thiểu với biến giả</p>	

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1. Introduction

Between 2010 and 2022, the global economy experienced significant uncertainty. The European sovereign debt crisis in 2012 marked a critical juncture for major economies, which faced rising financial risks. Simultaneously, political instability in Greece and Ukraine, combined with the Federal Reserve System's tight monetary policy, intensified global economic pressures and disrupted supply chains. The 2016 Brexit referendum, together with the U.S. presidential election and escalating U.S.- China trade tensions from 2018 to 2019, heightened fears of protectionist policies and further strained global supply networks. The peak of economic instability occurred in 2020, when the outbreak of the COVID-19 pandemic triggered a major global recession. By 2022, the Russia- Ukraine conflict further contributed to global uncertainty, with significant ramifications for energy markets and international trade. In addition, the fragmentation of international economic integration- driven by great power competition and rising geopolitical tensions- has exacerbated global uncertainty [1]. At the same time, outward foreign direct investment (OFDI) from developing countries surged, contributing to economic growth in both home and host countries. Governments in these economies have implemented policies aimed at maximizing the benefits of OFDI. Emerging markets, including Vietnam, have become key players in OFDI, particularly in sectors such as mining and agriculture in neighboring countries. Stable host economies with robust infrastructure tend to attract more OFDI, especially from state-supported enterprises [2].

Research has shown mixed effects of uncertainty on OFDI. Several scholars have found that uncertainty can motivate firms to pursue safer foreign investment opportunities [3]- [6], while other studies [7], [8] emphasize its deterrent effect due to heightened risk aversion. Economic policy uncertainty (EPU) in home countries can either encourage OFDI as firms seek to escape domestic instability or discourage it when regulatory and policy environments are unpredictable [9]. Geopolitical risk (GPR) similarly reduces FDI flows by increasing costs, legal uncertainty, and enforcement challenges. It can also trigger the "flight-to-home" effect, in which investors retreat to domestic markets during periods of geopolitical tension [10]. Despite extensive research on the economic impacts of uncertainty, few studies have examined its effects on Vietnamese OFDI (VOFDI), particularly at the sectoral level. Most existing literature focuses on large economies such as China, India, and Korea [11], [12], often overlooking developing countries like Vietnam, where OFDI is expanding rapidly. This gap underscores the need to investigate VOFDI patterns and the role of GPR using industry-level data, in order to better understand how geopolitical risks shape investment decisions. Studying Vietnam- a dynamic economy in East Asia- offers valuable insights into the nature of OFDI from emerging markets.

This study aims to examine the impact of GPR on VOFDI across 18 sectors from 2010 to 2022. The main findings are threefold: (i) domestic GPR increases VOFDI, whereas geopolitical risks originating from the United States (US) and China exert negative effects, with China's influence being more pronounced; (ii) the responsiveness of OFDI to GPR varies across sectors; and (iii) Vietnam's domestic GPR exerts a stronger influence than the global geopolitical risk index. The research contributes to the growing body of literature on OFDI and uncertainty in the context of developing countries in three key ways. First, it addresses a gap in recent research, which has primarily focused on country-level impacts of uncertainty on OFDI while often overlooking the critical importance of sector-level dynamics in shaping corporate investment decisions. Second, it broadens the scope of uncertainty analysis by incorporating GPR originating from major influencing countries, such as China and the US- both of which have significant impacts on various dimensions of Vietnam's economic environment. Finally, the study enhances the effectiveness of VOFDI strategies amid rising global uncertainty by offering novel insights and practical policy recommendations.

The paper is organized as follows: Section 1 provides the introduction; Section 2 presents the research methods; Section 3 discusses the results; and the final section offers the conclusion.

2. Research Methodology

2.1. Theoretical framework

Based on previous studies [8], [9], a theoretical framework to examine the impact of GPR on VOFDI at the industry level has been proposed. Within this framework, four types of GPR are used to quantitatively assess their effects on VOFDI. First, domestic GPR is expected to have a positive influence on VOFDI, consistent with the theories of comparative advantage and risk diversification. Second, global GPR is anticipated to negatively affect VOFDI, as external risks may discourage Vietnamese firms from pursuing overseas investment. Third, GPR originating from the United States and China is also expected to exert a negative impact on VOFDI, due to the close economic linkages between these countries and Vietnam. Notably, Vietnam- U.S. relations have improved significantly since 1995, fostering stronger economic and diplomatic ties. In contrast, Vietnam- China relations have been shaped by deep trade and economic integration, particularly reinforced by free trade agreements such as the ASEAN- China Free Trade Area (ACFTA) and the Regional Comprehensive Economic Partnership (RCEP).

We also control for various characteristics of Vietnam's economic sectors, including labor force, Producer Price Index (PPI), and Gross Domestic Product (GDP). Labor market fluctuations can influence investment strategies; sectors with higher labor demand are more likely to drive OFDI from Vietnam to host countries. The PPI affects production costs and competitiveness, thereby influencing Vietnam's FDI decisions. Additionally, the GDP of each economic sector contributes to the assessment of overall economic volatility, which is essential for determining the impact of geopolitical threats on VOFDI. Based on these considerations, we propose the following theoretical model. This model aims to quantify the impact of geopolitical risk indices and control variables on Vietnam's outward foreign direct investment.

$$\ln K_{OFDI_{it}} = f(GPR_{it}, X_{it}) \quad (1)$$

Where $\ln K_{OFDI_{it}}$ represents the total registered OFDI capital of Vietnam in sector i for year t . GPR_{it} denotes GPR indices. X represents a vector including control variables in the model such as GDP, labor and PPI at sectoral level.

2.2. Empirical model and estimation method

Based on the theoretical model Eq.(1), the empirical models examining the impact of GPR on sectoral OFDI flows from Vietnam is then structured as follows:

$$\ln K_{OFDI_{it}} = \beta_0 + \beta_1 GPR_{HC_VN_{it}} + \beta_2 GPR_{H_{it}} + \beta_3 X_{it} + \gamma_t + \varepsilon_{it} \quad (2)$$

$$\ln K_{OFDI_{it}} = \beta_0 + \beta_1 GPR_{HC_VN_{it}} + \beta_2 GPR_{HC_USA_{it}} + \beta_3 X_{it} + \gamma_t + \varepsilon_{it} \quad (3)$$

$$\ln K_{OFDI_{it}} = \beta_0 + \beta_1 GPR_{HC_VN_{it}} + \beta_2 GPR_{HC_CHN_{it}} + \beta_3 X_{it} + \gamma_t + \varepsilon_{it} \quad (4)$$

Where, i and t denote the sector and the year, respectively. The main independent variables include the GPR of Vietnam (GPR_{HC_VN}); global GPR (GPR_H); and the GPR of the USA (GPR_{HC_USA}) and China (GPR_{HC_CHN}). The vector X_{it} comprises control variables, including $\ln gdp$, $\ln labor$, and PPI_{prev} . The variable $\ln gdp$ represents the logarithm of each sector's contribution to GDP, capturing the macroeconomic context of the host countries. The variable $\ln labor$ denotes the logarithm of the number of workers within each economic sector. Meanwhile, PPI_{prev} represents the producer price index for agriculture, industry, and service sectors, using the previous year's value as the baseline. The term γ_t represents a time- and sector-specific fixed effect that accounts for time- and sector-varying characteristics, such as macroeconomic shocks. Finally, ε is the error term.

The Least Square Dummy Variable (LSDV) method is used to estimate the equations from (2) to (4). The LSDV method helps to examine the influence of GPR on VOFDI, controlling for specific unobservable effects such as time- and sector-specific fixed effects. When combined with other control variables, the LSDV method also addresses certain diagnostic issues in the model.

Table 1. Description of Variables

Variable	Expected Sign	Unit	Fullname	Source
<i>OFDI_pro</i>		Project	Number of investment projects permitted for outward foreign direct investment by Vietnam	GSO
<i>OFDI_cap</i>		Million USD	Total registered investment capital for outward foreign direct investment by Vietnam	GSO
<i>GPRHC_VN</i>	+	%	Historical political risk index in Vietnam (% of articles)	matteoiacoviello.com
<i>GPRH</i>	-	%	Political risk index tracked from 3 articles and starting from 1990 (Index: 1900:2019=100)	matteoiacoviello.com
<i>GPRHC_CHN</i>	-	%	Historical political risk index in China (% of articles)	matteoiacoviello.com
<i>GPRHC_USA</i>	-	%	Historical political risk index in the United States (% of articles)	matteoiacoviello.com
<i>PPI_prev</i>	-	%	Producer price index (previous year=100)	GSO
<i>labor_volume</i>	+	Thousand people	Number of employed workers in the economy by economic sector	GSO
<i>GDP_sector_USD</i>	+	Million USD	Total domestic product value at real prices by economic sector	GSO
Sector dummies		0-1	By economic sector (dummy variable)	GSO
Year dummies		0-1	By year (2010-2022) (dummy variable)	GSO

2.3. Data sources, data cleaning and summary statistics

The data were obtained from the World Bank (WB) and the General Statistics Office of Vietnam (GSO) for the period 2010–2022. A detailed description of the dataset is presented in Table 1. Outliers were carefully removed using statistical methods, and missing values were addressed through data re-collection or the application of flexible analytical techniques. Logarithmic transformations (+1) were applied to certain variables to reduce variance and help maintain the sample size effectively.

After data cleaning, the final dataset includes 234 observations across 18 economic sectors in Vietnam during the 2010- 2022 period (Table 2). The sample exhibits a relatively balanced distribution across variables, with the exception of *PPI_prev*. The average value of OFDI by sector is USD 1,009.69 million, while the average number of projects per sector is 61.37. Regarding *GPRH*, the average index value is 77.74 out of 100. More specifically, Vietnam's geopolitical risk index (*GPRHC_VN*) shows a low average value of 0.074 and a small standard deviation, indicating relatively low geopolitical risk. In contrast, the GPR indices for China and the US have average values of 0.60 and 2.74, respectively. This suggests that Vietnam's geopolitical profile is characterized by the absence of major challenges posed by global powers [2]. Despite the large differences in absolute values, the trends among these indicators appear to be synchronized, likely due to global economic integration and the significant influence of the US and China on global developments- particularly that of the US.

Table 2. Summary Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
<i>OFDI_cap</i>	216	992.35	1712.67	0.50	8937.30
<i>OFDI_pro</i>	216	57.96	71.32	1.00	452.00
<i>GPRHC_VN</i>	234	0.07	0.04	0.03	0.21
<i>GPRH</i>	234	77.74	13.82	58.63	112.94
<i>GPRHC_CHN</i>	234	0.60	0.20	0.39	1.12
<i>GPRHC_USA</i>	234	2.74	0.49	2.11	4.05
<i>PPI_prev</i>	210	103.18	3.92	97.87	131.60
<i>GDP_sector_USD</i>	234	13296.94	15515.39	633.81	100855.90
<i>labor_volume</i>	234	2805.39	5166.02	101.00	24569.90

3. Results and discussion

3.1. Results

3.1.1. Baseline models and models with control variables

Table 3. Estimation results of models including control variables

Variables	Dependent variable: <i>lnK_OFDI</i>					
	(1)	(2)	(3)	(4)	(5)	(6)
<i>GPRHC_VN</i>	67.54*** (8.63)	70.08*** (9.06)	116.8*** (18.28)	65.88*** (22.09)	68.34*** (23.05)	113.7*** (41.04)
<i>GPRH</i>	-0.024*** (0.005)			-0.023*** (0.009)		
<i>GPRHC_USA</i>		-0.69*** (0.15)			-0.67** (0.28)	
<i>GPRHC_CHN</i>			-4.10*** (0.90)			-3.98** (1.63)
<i>lngdp</i>				-0.46* (0.24)	-0.46* (0.24)	-0.46* (0.24)
<i>lnlabor</i>				0.59* (0.31)	0.59* (0.31)	0.59* (0.31)
<i>PPI_prev</i>				0.0105 (0.027)	0.0105 (0.027)	0.0105 (0.027)
Sector dummies				Yes	Yes	Yes
Year dummies				Yes	Yes	Yes
Cons.	4.98*** (0.4)	4.88*** (0.4)	2.76*** (0.63)	5.18 (3.77)	5.09 (1.14)	3.03 (4.31)
Obs.	216	216	216	192	192	192
R-squared	0.94	0.94	0.94	0.95	0.95	0.95

Notes: Robust standard errors are in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 3 summarizes the estimation results. Columns 1, 2, and 3 present the results of the baseline models- equations (2) through (4). The results demonstrate that the coefficient of *GPRHC_VN* is positive and statistically significant at 1% in all three models. These results suggest that GPR in the home country is positively associated with VOFDI, which is in line with transaction cost theory and investment-shifting dynamics. Specifically, a 1% increase in Vietnam's GPR index is estimated to raise the total registered VOFDI by 67.54%, 70.08%, and 116.8% across different model specifications. These findings align with the evidence presented by [13], which highlights the tendency of outbound investments to shift in response to heightened geopolitical uncertainty. In contrast, the coefficients of the GPR indices for the world, the US, and China are all negative and statistically significant at the 1% level. This indicates that global GPR, particularly those

originating from the US and China, exerts a detrimental impact on VOFDI. These results corroborate the findings of previous studies [4], [5], which similarly emphasize the adverse impact of external geopolitical tensions on outward investment flows.

Columns 4, 5, and 6 present the results of the regression analysis incorporating control variables, including GDP, labor force, and the Producer Price Index (PPI). After controlling for these macroeconomic variables, the estimation results remain consistent with those of the baseline models reported in Table 3. Specifically, domestic geopolitical uncertainty continues to encourage Vietnamese firms to invest abroad, whereas global uncertainty- particularly that originating from the United States and China- appears to deter Vietnam's outward investment.

3.1.2. Robustness check

As a robustness check, the dependent variable with the number of foreign direct investment projects in Vietnam ($\ln P_OFDI$) are replaced. Table 4 reports the results of this robustness check.

Table 4. Robustness Check Regression Results

Variables	Dependent variable: $\ln P_OFDI$					
	(1)	(2)	(3)	(4)	(5)	(6)
<i>GPRHC_VN</i>	52.47*** (4.74)	54.39*** (4.98)	89.62*** (10.05)	19.40 (12.05)	20.04 (12.57)	31.88 (22.38)
<i>GPRH</i>	-0.018*** (0.003)			-0.006 (0.005)		
<i>GPRHC_USA</i>		-0.53*** (0.84)			-0.17 (0.15)	
<i>GPRHC_CHN</i>			-3.09*** (0.49)			-1.04 (0.89)
<i>lngdp</i>				0.14 (0.13)	0.14 (0.13)	0.14 (0.13)
<i>lnlabor</i>				0.38** (0.17)	0.38** (0.17)	0.38** (0.17)
<i>PPI_prev</i>				-0.014 (0.015)	-0.014 (0.015)	-0.014 (0.015)
Sector dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Cons.	0.39* (0.22)	0.32 (0.22)	-1.28*** (0.35)	-0.05 (2.06)	-0.07 (2.07)	-0.61 (2.35)
Obs.	216	216	216	192	192	192
R-squared	0.94	0.94	0.94	0.96	0.96	0.96

Notes: Robust standard errors are in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Columns (1) to (3) present the baseline model with industry and year dummy variables, while columns (4) to (6) show the extended model with control variables. Based on the signs of the main independent variables, the coefficient of *GPRHC_VN* remains positive, whereas the coefficients for *GPRH*, *GPRHC_USA*, and *GPRHC_CHN* remain negative. These results confirm the robustness of the model.

3.2. Discussion

The empirical results show that global GPR, particularly that originating from the US and China, has a negative effect on VOFDI. As GPR rises, investors tend to become more cautious, and the associated increase in transaction costs discourages investment, especially in high-risk environments. Concerns over global uncertainties, such as the Russia- Ukraine conflict and Brexit, further prompt investors to shift their focus toward domestic markets. These findings support the results of [4] and [6], which emphasize the "flight-to-home" trend in response to heightened geopolitical tensions. Conversely, domestic geopolitical risk is found to stimulate VOFDI. When local risks escalate,

investors often reallocate capital to more stable foreign markets, thereby reducing exposure to volatile domestic conditions. This behavior is consistent with both transaction cost theory and the quality-based investment-shifting hypothesis. The findings also align with [2], which argues that firms increase OFDI as a strategy to mitigate domestic political risk.

The sectoral analysis reveals heterogeneous responses of outward foreign direct investment (OFDI) to geopolitical risk (GPR). The manufacturing and processing sector maintains investment due to its integration into global supply chains, while the mining and real estate sectors are negatively affected by heightened uncertainty and regulatory shifts. In contrast, the technology and communications sector grows strongly due to innovation and is less affected by geopolitical risks. The agricultural and resource extraction sectors are more sensitive to changes in host-country policies. In particular, the science and technology sector shows great potential, supported by national innovation initiatives.

Finally, Vietnam's geopolitical risk index (*GPRHC_VN*) exerts a stronger influence on OFDI than the global risk index (*GPRH*). The index for China (*GPRHC_CHN*) demonstrates a more pronounced negative effect than that of the US (*GPRHC_USA*), suggesting greater investor caution toward risks associated with China, potentially due to geographical proximity and shared political and cultural factors between the two countries.

4. Conclusion

This study examines the influence of GPR on VOFDI at the sectoral level over the period from 2010 to 2022. Using a dataset of 234 observations across 18 economic sectors, the research addresses a gap in the literature by exploring sector-specific effects in investment decisions, with particular attention to geopolitical risks originating from China and the US. The study also offers insights into enhancing the effectiveness of VOFDI strategies under conditions of global uncertainty. Employing a LSDV model that controls for sector and year fixed effects, the results indicate that domestic geopolitical uncertainty tends to stimulate VOFDI. In contrast, global GPR- particularly that associated with the US and China- exerts a negative impact on VOFDI, with the effect of Chinese geopolitical risk being more pronounced. These findings highlight the significant role of geopolitical risk in shaping the outbound investment decisions of Vietnamese firms.

With the goal of becoming a high-income country by 2045, Vietnam is rapidly advancing its economy through programs aimed at improving education, living conditions, and overall quality of life, as evidenced by the international success of its state-owned enterprises. Outward investment can further Vietnam's integration into the global economy, enhancing both its competitiveness and economic resilience. In the face of increasing global geopolitical risks, Vietnamese enterprises should thoroughly understand local legislation to avoid regulatory bottlenecks before investing abroad and prioritize countries with lower geopolitical risks to ensure safer investment environments. Simultaneously, the Vietnamese government should establish clear legal frameworks and maintain a stable financial system to support investors in adapting to heightened uncertainty, thereby enabling them to leverage technology, capital, and foreign markets for expansion and profitability. Most importantly, the Vietnamese government and private sector should formulate strategic policies- such as bilateral trade agreements and diplomatic initiatives- to strengthen relations with China and the US, ensuring consistent foreign investment flows, particularly in critical sectors. This study provides important insights into the impact of GPR on VOFDI and offers recommendations for promoting more effective investment flows.

Although the contributions outlined above are significant, data limitations prevent this study from precisely assessing the influence of GPR on VOFDI based on the risk levels of individual partner countries. Future research would benefit from a more in-depth investigation of GPR's impact on VOFDI, specifically in relation to the risk profiles of each partner country. Such an approach could provide a more nuanced understanding of how varying degrees of geopolitical risk across countries influence Vietnam's investment decisions.

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