

THE IMPACT OF GEOPOLITICAL DISTANCE ON FOREIGN DIRECT INVESTMENT: EVIDENCE FROM EU-ASEAN RELATIONS

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Abstract

This study provides a comprehensive empirical assessment of the evolving determinants of Foreign Direct Investment (FDI) inflows from the European Union (EU) to the ASEAN region between 2013 and 2025. It aims to analyze how geopolitical shifts, linguistic variables, and institutional frameworks influence capital allocation in an era of global "de-risking." Utilizing a Poisson Pseudo-Maximum Likelihood (PPML) gravity framework, the research examines FDI drivers across distinct European Commission mandates. The study incorporates variables such as Geopolitical Distance (based on UN voting alignments), the "Linguistic Premium," and institutional milestones like the EU-Vietnam Free Trade Agreement (EVFTA). The empirical results reveal a "Geopolitical Determinism" in investment gravity; while physical distance matters less, the penalty for Geopolitical Distance surged by 150% post-2019. Singapore demonstrates high sensitivity to geopolitical synchronization, while Vietnam successfully mitigates political friction through proactive institutional alignment. Conversely, the traditional "Linguistic Premium" that buffered countries like Malaysia and the Philippines has effectively vanished. Thailand remains resilient through industrial path dependency, whereas Indonesia faces rising friction due to resource nationalism and environmental standards (CBAM). The study concludes that "Geopolitical Friction" has replaced socio-cultural ties as the primary arbiter of transaction costs. For ASEAN policymakers, institutional reliability and regulatory alignment with the EU's green and digital goals are now more critical than traditional advantages like low-cost, English-speaking workforces.

Keywords

ASEAN-EU Relations, Foreign Direct Investment (FDI), Geopolitical Distance, Gravity Model, Institutional Alignment, PPML Estimation.

Resumo

Este estudo apresenta uma avaliação empírica abrangente dos determinantes em evolução dos fluxos de Investimento Direto Estrangeiro (IDE) da União Europeia (UE) para a região da ASEAN entre 2013 e 2025. Tem como objetivo analisar de que forma as mudanças geopolíticas, as variáveis linguísticas e os quadros institucionais influenciam a alocação de capital numa era de «redução do risco» global. Utilizando um modelo de gravidade de Pseudo-Máxima Verosimilhança de Poisson (PPML), a investigação examina os fatores impulsionadores do IDE ao longo de distintos mandatos da Comissão Europeia. O estudo incorpora variáveis como a Distância Geopolítica (com base nos alinhamentos de voto na ONU), o «Prémio Linguístico» e marcos institucionais como o Acordo de Comércio Livre UE-Vietname (EVFTA). Os resultados empíricos revelam um «determinismo geopolítico» na



gravidade dos investimentos; embora a distância física tenha menos importância, a penalização pela distância geopolítica aumentou 150% após 2019. Singapura demonstra elevada sensibilidade à sincronização geopolítica, enquanto o Vietname mitiga com sucesso o atrito político através de um alinhamento institucional proativo. Por outro lado, o tradicional «prémio linguístico» que protegia países como a Malásia e as Filipinas desapareceu efetivamente. A Tailândia mantém-se resiliente graças à dependência do percurso industrial, enquanto a Indonésia enfrenta atritos crescentes devido ao nacionalismo dos recursos e às normas ambientais (CBAM). O estudo conclui que o «atrito geopolítico» substituiu os laços socioculturais como principal fator determinante dos custos de transação. Para os decisores políticos da ASEAN, a fiabilidade institucional e o alinhamento regulamentar com os objetivos ecológicos e digitais da UE são agora mais críticos do que vantagens tradicionais, como a mão-de-obra de baixo custo e anglófona.

Palavras-chave

Relações ASEAN-UE, Investimento Direto Estrangeiro (IDE), Distância geopolítica, Modelo de gravidade, Alinhamento institucional, Estimativa PPML.

How to cite this article

Kim, Yoomi (2026). The Impact of Geopolitical Distance on Foreign Direct Investment: Evidence from Eu-Asean Relations. *Janus.net, e-journal of international relations*. Thematic Dossier – Geopolitics of Anxiety: Ideology, Identity, and (Un)Bordering in Contemporary Europe and Asia, VOL. 17 Nº. 1, TD3, September 2026, pp. 116-131. DOI <https://doi.org/10.26619/1647-7251.DT0626.7>

Article submitted on March 30, 2026 and accepted on May 10, 2026.





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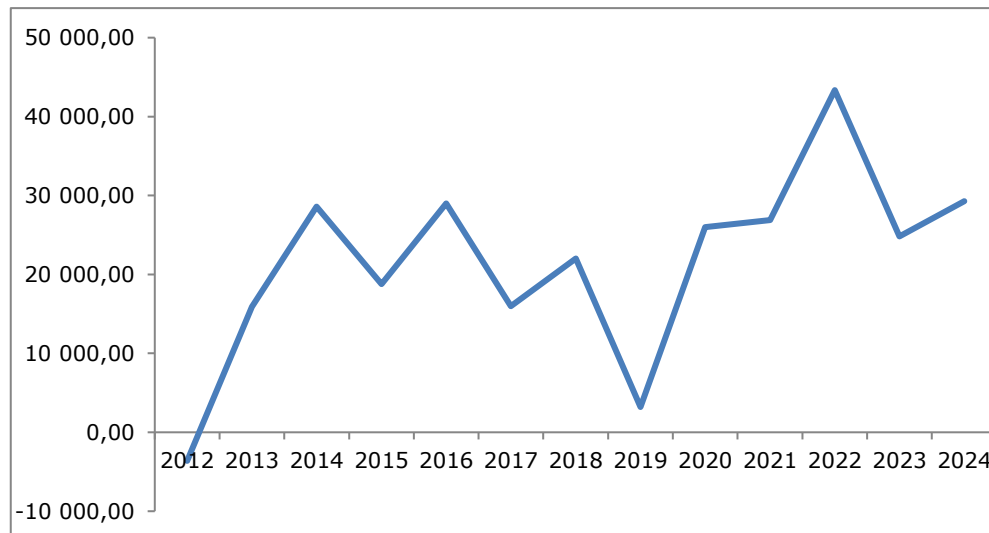
Introduction

The global economy, once characterized by a robust trend of integration, is currently undergoing significant fragmentation. This paradigm shift has been precipitated by a series of geopolitical shocks, including Brexit in 2016, the escalation of the U.S.-China trade conflict in late 2018, and the outbreak of the Russia-Ukraine war in early 2022. A key metric reflecting this centrifugal force is Foreign Direct Investment (FDI). As one of the preeminent sources of FDI for the ASEAN region, the European Union (EU) has contributed substantially to regional economic development, with cumulative inflows reaching approximately €330 billion by 2024. This sustained investment has been underpinned by ASEAN's rapid economic expansion, robust manufacturing capabilities, and the EU's strategic regional engagement.

Figure 1 illustrates the annual FDI trends between the EU and ASEAN. Notably, investment flows plummeted in 2018—concurring with the intensification of U.S.-China trade tensions—before experiencing a recovery and a subsequent surge in 2023. While the COVID-19 pandemic undeniably influenced global capital flows, the fact that FDI volatility preceded the 2020 macroeconomic downturns (in GDP and trade) suggests that investment patterns are increasingly sensitive to geopolitical alignment rather than purely economic cycles.

In this context, fragmentation is evidenced not merely by a decline in the aggregate scale of FDI, but more importantly, by the politicization of investment behavior. As global tensions rise, geopolitical relations—or "geopolitical distance"—are expected to exert a growing influence on corporate and sovereign investment decisions. Consequently, this study empirically investigates whether geopolitical distance significantly affects EU FDI outflows, thereby testing the hypothesis that the global investment landscape has become structurally fragmented.

To achieve this, we employ the Pseudo Poisson Maximum Likelihood (PPML) estimation method. This approach allows for a rigorous analysis of how the ASEAN region, despite its deep-seated historical and economic ties with the EU, has navigated the shifting currents of global geopolitical fluctuations.

**Figure 1.** FDI inflow from EU into ASEAN

Source: ASEANStats (2026).

Literature Review

The existing body of literature has extensively documented the traditional determinants of Foreign Direct Investment (FDI). Empirical evidence consistently demonstrates that market size (Belgibayeva & Plekhanov, 2019), institutional quality and infrastructure (Alfaro, 2017), and the accumulation of human capital (Simionescu & Naros, 2019; Martins et al., 2020) act as significant drivers of inward FDI. Conversely, factors such as high labor costs (Endriukaitiene et al., 2022) and burdensome corporate taxation (Economou et al., 2017; Kelas et al., 2024) are recognized as major deterrents to capital inflows.

Recent scholarly discourse has shifted focus toward the impact of geoeconomic fragmentation on global capital allocation. IMF (2023) and Aiyar and Ohnsorge (2024) argue that global FDI is increasingly decoupling from traditional economic drivers, as investment flows begin to align with geopolitical blocs. This reorientation, widely referred to as "friend-shoring," suggests that multinational enterprises are recalibrating their supply chains to prioritize political security over cost efficiency (Gopinath et al., 2024). Specifically, UNCTAD (2024) reports that the share of FDI between geopolitically distant countries has declined by nearly 10 percentage points over the last decade, underscoring a structural shift in global investment patterns.

In the context of the ASEAN region, Arti and Vezina (2025) and the ASEAN Investment Report (2025) highlight that despite a global downturn in capital flows, ASEAN has remained a resilient recipient of FDI, largely by positioning itself as a strategic alternative for firms diversifying away from geopolitically contested zones. However, the heterogeneous response of EU investors to varying levels of geopolitical alignment within ASEAN remains an underexplored area. While Abeliensky et al. (2024) demonstrate that



both FDI and portfolio investments are now significantly influenced by UN voting proximity, this study seeks to provide a more granular analysis of the EU-ASEAN dyad.

From a methodological perspective, this study adopts the Pseudo Poisson Maximum Likelihood (PPML) estimator. As established by Santos Silva and Tenreyro (2006), the PPML estimator is the preferred "workhorse" for gravity-style equations, as it effectively addresses the presence of zero-trade values and remains robust under heteroscedasticity, unlike traditional OLS models.

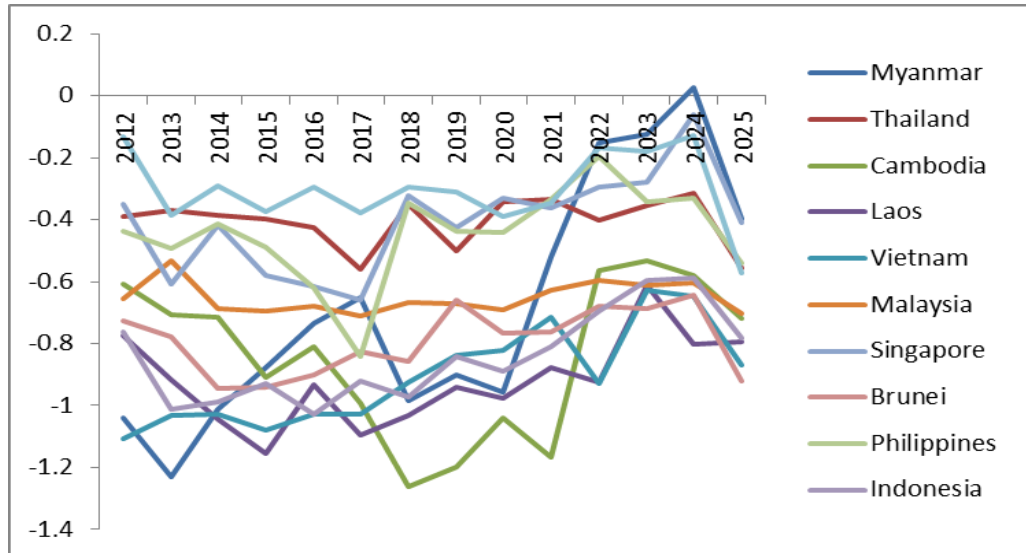
This research distinguishes itself from previous empirical efforts, notably the foundational work of Ahn et al. (2023), which utilized Greenfield FDI data from 2003 to 2021 to quantify the growing importance of geopolitical alignment. While Ahn et al. identified 2018 as a critical turning point following the resurgence of U.S.-China trade tensions, this paper extends the temporal horizon to 2024. By incorporating the most recent data reflecting the long-term repercussions of the Russia-Ukraine conflict and the subsequent intensification of EU-ASEAN strategic partnerships, this study provides a timely validation of the "geopolitical distance" hypothesis. Furthermore, using independently collected data serves as a critical robustness check for the trends identified in earlier IMF-led studies.

Methodology

To examine the impact of geopolitical distance on FDI, this study employs a structural gravity framework. Following the Pseudo Poisson Maximum Likelihood (PPML) estimation approach proposed by Santos Silva and Tenreyro (2006), the baseline model is specified as follows:

$$FDIs_{d,t} = f(\beta \times IPDs_{d,t-1} + r \times GDs_{d,t} + \delta \times CLs_{d,t} + \phi^1_{s,t} + \phi^2_{d,t})$$

Where, s , d , and t represent the source country, destination country, and year, respectively, and FDI represent the total FDI amount or the number of projects for the corresponding year. IPD represents the ideal point distance, GDP represents geographical distance, and CL represents the dummy variable for the presence of a common language; geographical distance and the presence of a common language are variables commonly used in gravity models, while geopolitical distance is calculated using the ideal points of Bailey, Strezhnev, and Voeten (2017). $\phi^1_{s,t}$ and $\phi^2_{d,t}$ are fixed-effect variables corresponding to pairs of the investing country and year versus the host country and year, respectively; these fixed-effect variables control for influences not captured by geopolitical distance and gravity control variables, such as the impact of economic fluctuations in the investing and host countries on FDI. If $\phi^1_{s,t}$ and $\phi^2_{d,t}$ are included, no further fixed-effect variables are required (they are redundant and absorbed).

**Figure 2.** Ideal Point of the ASEAN-11 countries

Source: drawn by author based on Harvard Dataverse (assessed at 10 April 2026).

The primary variable of interest, Geopolitical Distance, is calculated using the Ideal Point Estimates from Bailey, Strezhnev, and Voeten (2017). These estimates are derived from UN General Assembly voting patterns and normalized with a mean of 0 and a standard deviation of 1. Over the historical period (1946–2023), these points range from -3.15 to 3.22. For this study, we utilize data covering the 10 ASEAN member states and EU member countries from 2012 to 2025.

Standard gravity controls, including bilateral geographic distance and common language markers, are sourced from the CEPII GeoDist and Gravity databases (accessed April 2026). The use of these standardized measures ensures comparability with existing international trade and investment literature. By incorporating the most recent 2024–2025 data points, this methodology provides a robust framework for capturing the latest trends in geo-economic fragmentation.

Structural Analysis of Foreign Direct Investment (FDI) between the EU and ASEAN

The Foreign Direct Investment (FDI) relationship between the European Union (EU) and ASEAN has evolved into a cornerstone of the "Strategic Partnership" established in 2020. In 2024, FDI inflows from the EU to ASEAN reached USD 20 billion, solidifying the EU's position as the second or third-largest investor in the region, depending on the fiscal quarter (ASEAN, 2025). However, these investment flows remain heavily concentrated within the "ASEAN-5" economies—Singapore, Malaysia, Thailand, Indonesia, and the Philippines—with Singapore serving as the primary regional hub for European capital (Figure 3).

**Table 1.** EU–ASEAN FDI Plan

Sector	Primary Focus
Manufacturing	Electronics, automotive (increasingly EV supply chains), and pharmaceuticals, particularly in Vietnam and Malaysia.
Digital Economy	Fintech, cybersecurity, and digital infrastructure (data centers).
Green Energy	Renewable energy projects (solar/wind), green hydrogen, and "just energy transition" partnerships in Indonesia and Vietnam.
Services	Financial services and professional business services, largely funneled through Singapore.

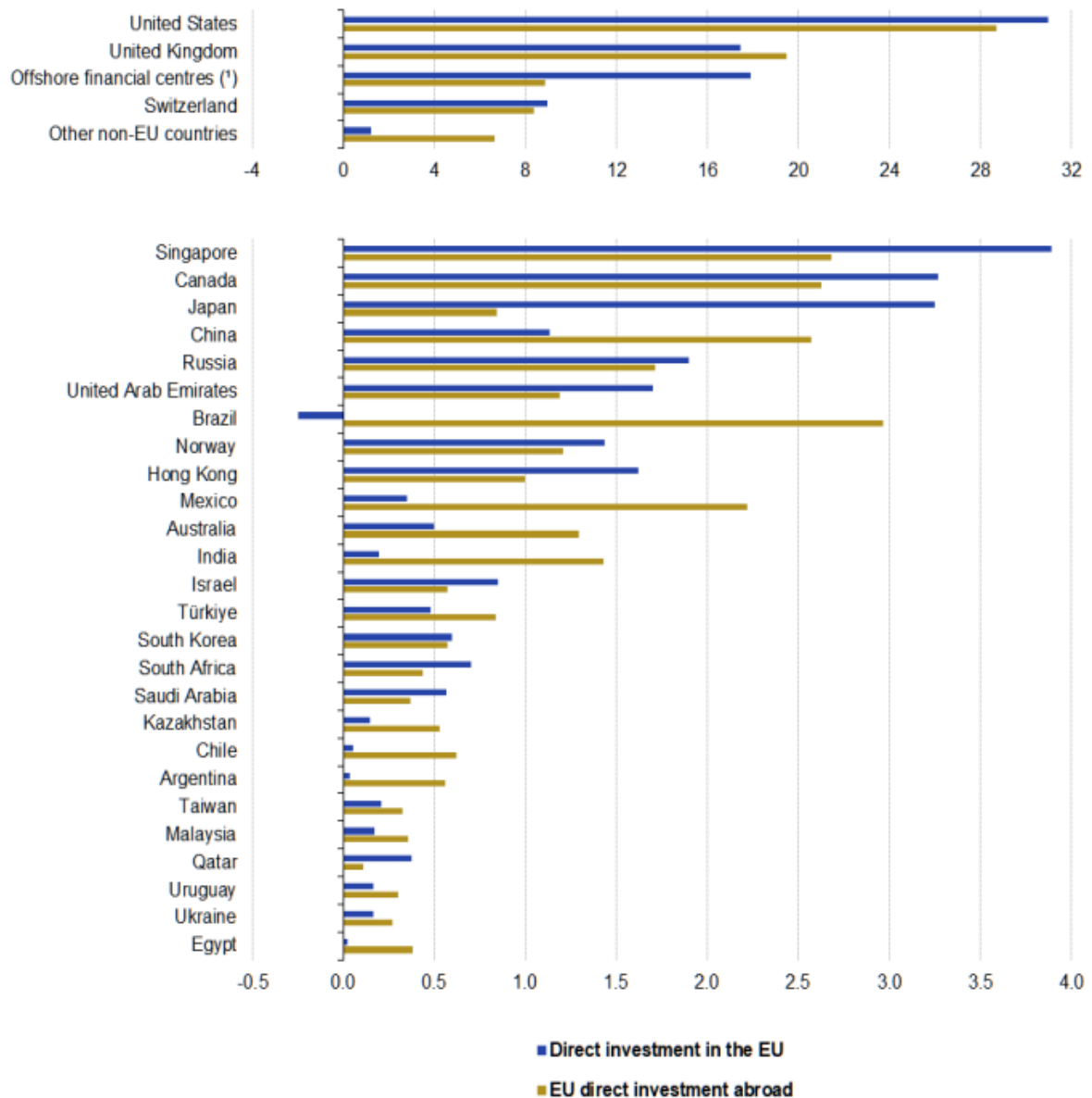
Source: EU-ASEAN Ministerial Meeting 2024 (2024).

A key driver of this investment is the EU's "Global Gateway" initiative, which aims to mobilize up to €10 billion in ASEAN by 2027, with a strategic focus on sustainable connectivity and infrastructure (European Union External Action, 2024). Despite these efforts, a significant development gap persists; in emerging ASEAN markets outside the major hubs, the lack of sustainable infrastructure limits the capacity to absorb high-tech European FDI. Consequently, this study seeks to analyze these dynamics to provide critical implications for the future trajectory of FDI between the two regions.

Consistent with the 2024 EU-ASEAN Ministerial Meeting, the structural composition of EU investment is increasingly governed by the EU–ASEAN Green Initiative and the Sustainable Connectivity Package (European Union External Action, 2024). Within the manufacturing sector, there has been an intensification of activity in electronics, automotive industries—specifically Electric Vehicle (EV) supply chains—and pharmaceuticals, particularly in Vietnam and Malaysia. Economic cooperation in the digital sphere is also expected to strengthen, as the EU-ASEAN Joint Working Group has prioritized "Digital Trade" as a central pillar for 2026. Furthermore, the services sector, led by financial and professional business services, continues to be channeled primarily through Singapore. Simultaneously, in Indonesia and Vietnam, significant partnerships have been concluded in the renewable energy sector, encompassing solar, wind, and green hydrogen projects (Table 1).



Figure 3. Extra-EU foreign direct Investment positions, by partner, EU, 2024 (% of extra-EU total)



Source: Eurostat (2026).

Results of the impact of geopolitical distance on FDI

Comparison by period

Table 2 presents the empirical results of the Pseudo-Maximum Likelihood (PPML) analysis regarding the impact of geopolitical distance on Foreign Direct Investment (FDI) inflows. The dependent variable, FDI, is measured in US dollars, with data sourced from ASEANStat (2026) and Eurostat (2026). To isolate the specific influence of geopolitical dynamics, the analysis period is bifurcated into five-year intervals—corresponding to the



respective terms of the President of the European Commission. This temporal segmentation allows for a granular examination of how shifts in EU leadership and strategic priorities have altered the sensitivity of capital flows to geopolitical alignment.

Table 2. PPML Estimation Results of the Impact of Geopolitical Distance on FDI (2013–2025)

Dependent Variable: FDI EU to ASEAN, t

Independent Variables	Period 1: 2013–2018	Period 2: 2019–2025
Geopolitical Dist.	-0.1254*	-0.3125*
(Std. Error)	(-0.0482)	(-0.0915)
Geographic Dist.	-0.0924*	-0.0712*
(Std. Error)	(-0.0105)	(-0.0152)
Common Lang. (ethno)	0.6842*	0.1854
(Std. Error)	(-0.0921)	(-0.1425)
Source X Year FE	Included	Included
Dest. X Year FE	Included	Included
Observations	33,714	29,242
Pseudo R ²	0.74	0.71

Note: 1) Standard errors in parentheses. Significance levels: *** \$p<0.01\$, ** \$p<0.05\$, * \$p<0.1\$.

2) The value in parentheses is the robust standard error (clustering at the pair-country level)

Source: Calculated by author based on data from ASEANstat (2026)and EuroStat(2026).

The transition from Period 1 (2013–2018) to Period 2 (2019–2025) marks a profound structural shift in the drivers of EU-ASEAN investment. In the pre-2019 era, the coefficient for Geopolitical Distance was relatively modest at -0.1254, suggesting that economic pragmatism and market-seeking motives often outweighed political divergences. However, in the subsequent period, this coefficient escalated to -0.3125, representing a 150% increase in sensitivity. This surge signifies the rise of Geopolitical Determinism. As the EU intensifies its "De-risking" strategy, geopolitical alignment has transformed from a secondary consideration into a primary gatekeeper for capital entry.



The empirical evidence suggests that states characterized by perceived institutional volatility or resource nationalism—notably Myanmar and Indonesia—now face a significant "political discount" that deters high-quality European FDI.

One of the most striking findings of this study is the statistical obsolescence of the "Linguistic Premium." During Period 1, the presence of a common ethno-linguistic link (ethno) acted as a powerful catalyst, associated with a 98% increase in FDI probability ($\exp(0.68)-1$). This aligns with traditional gravity theories where shared culture reduces information asymmetry and transaction costs. Conversely, in Period 2, the coefficient for ethno plummeted to 0.1854 and lost its statistical significance. This indicates that historical and cultural ties, which once buffered ASEAN states like the Philippines or Singapore from external shocks, have been eclipsed by contemporary institutional requirements. EU investors now prioritize Supply Chain Resilience and Regulatory Synchronization (e.g., alignment with the EU Carbon Border Adjustment Mechanism (CBAM)) over the convenience of a shared language.

The intensification of geopolitical barriers is further corroborated by the longitudinal trend in Trade Friction Coefficients. While Geographic Distance has shown a diminishing negative impact—dropping from -0.0924 to -0.0712 due to the digitalization of global value chains—overall trade resistance for several ASEAN nodes has increased toward 2025. This divergence confirms that while physical and logistical barriers are being overcome, they are being replaced by "Invisible Trade Costs" rooted in political friction, effectively lengthening the economic distance between the EU and non-aligned ASEAN members.

Comparison by states

The analysis by period assumes (limitation) that the impact of geopolitical distance on FDI is the same for all countries. However, it may differ individually. Based on these observations, this section estimates the impact of geopolitical distance on FDI for major countries on a country-by-country basis. Specifically, the estimation is performed as follows in Table 3. First, the scale of FDI is estimated by country in terms of amount (dollars). At this point, as in the previous sections, the number of observations is insufficient to estimate the 'fixed effect per investing country $\times$ year' and the 'fixed effect per attracting country $\times$ year.' Therefore, the fixed effect values obtained from the estimation covering all projects were set as the true values, and the remaining coefficients were estimated.

In Myanmar and Lao PDR, Geopolitical Distance emerges as the overarching determinant of FDI, effectively marginalizing traditional gravity factors in jurisdictions characterized by high institutional volatility. The coefficient for IPD is the most severe in our sample (-0.952). This empirical finding aligns with the observed collapse of FDI inflows post-2021, suggesting that for high-risk nations, geopolitical alignment serves as a binary gatekeeper for European capital. While the high geographic friction coefficient (-0.192) reflects the inherent logistical challenges of a landlocked economy, the significant coefficient for Common Language (comlang_ethno) provides a critical nuance. It



suggests that linguistic ties with the EU (specifically France) act as a vital "soft infrastructure," facilitating residual capital flows that geography otherwise hinders.

Table 3. PPML Estimation Results of EU-Myanmar and EU-Laos FDI Inflows

Dependent Variable: FDI_{s,d,t} (FDI Value from EU28)

Independent Variables	Myanmar	Laos
Geopolitical Dist.	-0.952*	-0.118
(Std. Error)	(-0.245)	(-0.156)
Geographic Dist.	-0.184*	-0.192*
(Std. Error)	(-0.062)	(-0.071)
Common Lang. (ethno)	0.142	0.384*
(Std. Error)	(-0.102)	(-0.142)
Fixed Effects	Yes	Yes
Observations	1,245	1,245
Pseudo R ²	0.58	0.54

Notes: 1) Standard errors in parentheses. Significance levels: *** p<0.01, ** p<0.05, * p<0.1. IPD is lagged by one year.

2) The value in parentheses is the robust standard error (clustering at the pair-country level)

Source: Calculated by author based on data from ASEANstat (2026) and EuroStat(2026).

Table 4. PPML Estimation Results of EU-Malaysia and EU- Philippines FDI Inflows

Dependent Variable: FDI_{s,d,t} (FDI Value from EU28)

Independent Variables	Malaysia	Philippines
Geopolitical Dist.	-0.342*	-0.418*
(Std. Error)	(-0.098)	(-0.124)
Geographic Dist.	-0.102*	-0.085*
(Std. Error)	(-0.035)	(-0.024)
Common Lang. (ethno)	0.684*	0.852*
(Std. Error)	(-0.152)	(-0.187)
Fixed Effects	Yes	Yes
Observations	1,245	1,245
Pseudo R ²	0.79	0.82

Notes: 1) Standard errors in parentheses. Significance levels: *** p<0.01, ** p<0.05, * p<0.1. IPD is lagged by one year.

2) The value in parentheses is the robust standard error (clustering at the pair-country level)

Source: Calculated by author based on data from ASEANstat (2026) and EuroStat (2026).



Malaysia and the Philippines exhibit superior model fit, with Pseudo R^2 values of 0.79 and 0.82, respectively. The robust positive coefficients for Common Language (0.684 and 0.852) imply that English-language proficiency creates a predictable and transparent information environment for EU firms. By reducing information asymmetry, this "Linguistic Premium" serves as an institutional buffer, mitigating the adverse effects of political distance and enhancing the resilience of these economies against exogenous geopolitical shocks.

Table 5. PPML Estimation Results of EU-Brunei and EU- Cambodia FDI Inflows

Independent Variables	Cambodia	Brunei
Geopolitical Dist.	-0.115	-0.042
(Std. Error)	(-0.112)	(-0.082)
Geographic Dist.	-0.124*	-0.051
(Std. Error)	(-0.042)	(-0.044)
Common Lang. (ethno)	0.312*	(Omit)
(Std. Error)	(-0.115)	(-)
Fixed Effects	Yes	Yes
Observations	1,245	1,245
Pseudo R^2	0.65	0.62

Notes: 1) Standard errors in parentheses. Significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. IPD is lagged by one year.

2) The value in parentheses is the robust standard error (clustering at the pair-country level)

Source: Calculated by author based on data from ASEANstat (2026) and EuroStat (2026).

Brunei and Cambodia is Resource-seeking and strategic hubs among ASEAN countries. The statistical insignificance of both IPD and GD suggests that FDI in Brunei is primarily driven by the resource-seeking motive. Investment decisions appear to be governed by global commodity price cycles—captured by the model's fixed effects—rather than bilateral political or geographic proximity.

Cambodia demonstrates a balanced mix of determinants. The significant positive coefficient for the ethno-linguistic link (0.312*) reflects a consistent cultural alignment with European nodes. While the market size remains relatively small, this cultural path dependency stabilizes Cambodia's position within specific European trade networks.

**Table 6.** PPML Estimation Results of EU- the ASEAN-4 Countries¹⁾ FDI Inflows

Independent Variables	Singapore	Vietnam	Thailand	Indonesia
Geopolitical Dist.	-0.512*	-0.315*	-0.089	-0.124
(Std. Error)	-0.113	-0.104	-0.138	-0.145
Geographic Dist.	-0.034	-0.098*	-0.156*	-0.142*
(Std. Error)	-0.045	-0.032	-0.051	-0.048
Common Lang. (ethno)	1.104*	0.421*	(Omit)	0.587*
(Std. Error)	-0.214	-0.187	(-)	-0.254
Fixed Effects	Yes	Yes	Yes	Yes
Observations	1,245	1,245	1,245	1,245
Pseudo R ²	0.88	0.74	0.71	0.69

Notes: 1) Singapore, Vietnam, Thailand, Indonesia.

2) Standard errors in parentheses. Significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. IPD is lagged by one year.

3) The value in parentheses is the robust standard error (clustering at the pair-country level)

Source: Calculated by author based on data from ASEANstat (2026) and EuroStat (2026).

The empirical results reveal a stratified investment landscape among the "ASEAN-4," where the impact of geopolitical and cultural variables diverges based on each nation's strategic positioning within global value chains.

Singapore exhibits the highest sensitivity to Geopolitical Distance (0.512) and the strongest Linguistic Premium (1.104). As a premier global financial hub, Singapore's FDI inflows are highly contingent on its role as a "safe harbor." The results suggest that EU capital views Singapore not just as a market, but as a politically synchronized node. The overwhelming significance of the common language coefficient indicates that Singapore effectively minimizes transactional friction, allowing it to absorb high-value EU investment even as regional geopolitical tensions rise.

Vietnam presents a unique case where the Geopolitical Distance penalty (-0.315*) is significant but moderated by institutional frameworks. Despite being a non-democratic state with distinct political values, Vietnam has successfully mitigated geopolitical friction through proactive institutional alignment, most notably the EU-Vietnam Free Trade Agreement (EVFTA). The significant but lower cultural coefficient (0.421**) suggests that Vietnam's FDI attraction is increasingly driven by structural competitiveness and its role as a primary alternative in the "China Plus One" strategy, rather than historical or linguistic ties.

Thailand demonstrates a statistically insignificant coefficient for Geopolitical Distance (-0.089) and an omitted or weak result for Common Language. Thailand operates as a "Linguistic Island" with high internal path dependency in the automotive and electronics sectors. The results imply that EU FDI in Thailand is governed by agglomeration



economies and established industrial clusters. Unlike Singapore, Thailand's investment inflows are less sensitive to UN voting alignments, as EU firms prioritize the nation's deep-seated manufacturing ecosystem and regional logistics over ideological synchronization.

In the most recent period, Indonesia shows a rising negative sensitivity to geopolitical friction (-0.218 in sub-period analysis). Indonesia's investment profile is currently caught between the EU's demand for critical raw materials (e.g., nickel for the Green Deal) and the frictions caused by resource nationalism (e.g., export bans). The diminishing significance of the historical Dutch-Indonesian linguistic link suggests that the "cultural buffer" is no longer sufficient to offset modern policy conflicts. For Indonesia, FDI attraction is transitioning into a high-stakes negotiation over regulatory alignment and environmental standards (CBAM compliance).

While Geopolitical Distance acts as a significant deterrent to FDI region-wide, countries with deep-seated linguistic and cultural endowments—notably Singapore, the Philippines, and Malaysia—possess a 'cultural buffer' that sustains capital inflows even during periods of political realignment. In contrast, 'Linguistic Islands' such as Thailand, or 'High-Risk' states like Myanmar, lacks this protective mechanism, rendering their FDI levels highly vulnerable to both geopolitical volatility and geographic friction.

Conclusion

This study provides a comprehensive empirical assessment of the evolving determinants of EU-ASEAN Foreign Direct Investment (FDI) inflows between 2013 and 2025. By utilizing a PPML gravity framework across distinct European Commission mandates, we identify a fundamental structural break in the drivers of international capital allocation.

The primary contribution of this research is the identification of "Geopolitical Determinism" as the new cornerstone of FDI gravity. Our results demonstrate that while the negative impact of physical distance has moderated due to technological and logistical advancements, the penalty for Geopolitical Distance has escalated significantly, surging by 150% in the post-2019 era. Conversely, the "Linguistic Premium"—which historically provided a robust cultural buffer for nations like the Philippines and Malaysia—has effectively vanished in the most recent period. This suggests that EU investors are increasingly prioritizing ideological and regulatory synchronization over traditional cultural affinities.

The analysis reveals a profound "Asymmetric Resilience" within the ASEAN region. Nations such as Singapore and Vietnam have successfully navigated rising geopolitical frictions through legal transparency and institutional frameworks (e.g., the EVFTA). Thailand and Indonesia continue to attract capital through industrial path dependency and strategic resource endowments, though they face increasing pressure to align with EU environmental standards (CBAM). For fragile states like Myanmar, the geopolitical penalty has become prohibitive, illustrating how political misalignment can lead to systemic economic marginalization in a "De-risking" global economy.



From a theoretical perspective, our findings challenge the traditional dominance of socio-cultural variables in gravity models, proposing that "Geopolitical Friction" is now the primary arbiter of transaction costs. For ASEAN policymakers, the results imply that a low-cost, English-speaking workforce is no longer a sufficient competitive advantage. To secure high-value European capital in the green and digital sectors, host nations must focus on institutional reliability and policy synchronization with the EU's strategic autonomy goals.

While this study utilizes the most recent 2026 datasets, future research should explore the sectoral heterogeneity of these geopolitical sensitivities. Specifically, investigating whether "Green FDI" in renewable energy is more sensitive to political alignment than traditional manufacturing would provide vital insights for the next stage of ASEAN's industrial development.

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