

Examine the Dynamics of FDI Inflows in Both Brics and G7 Economies: Dissecting the Influence of Geopolitical Risk Versus Economic Policy Uncertainty

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Abstract : The quest to mitigate the probable adverse effects of geopolitical risk on FDI inflows tends to result in more frequent changes in economic policies and, as a result, heightened policy uncertainty. In this regard, we extend the literature on the dynamics of FDI inflows to include the hypothesis of the possibility of geopolitical risk escalating the adverse effects of economic policy uncertainty on FDI inflows. To test the robustness of this hypothesis, we use the cases of different economic groups characterized by different levels of economic development and varying degrees of FDI confidence. Employing an ARDL-based dynamic panel data model that accounts for both non-stationarity and heterogeneity effects, we show result that suggests GPR and EPU retard the inflows of FDI in both economies but mainly in the short-run situation. In the long run, however, higher EPU not attributed to GPR is likely to boost the inflows of FDI rather than retarding, at least in the case of the G7 economy.

Keywords : FDI inflows, geopolitical risk, economic policy uncertainty, Panel ARDL model

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