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What Drives FDI in Japan? A Time-Series Analysis of Geopolitical Risk, Economic Growth, and Trade Openness

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Abstract: This study examines the impact of geopolitical risk, economic growth (GDP), inflation, and trade openness on Foreign Direct Investment (FDI) inflows in Japan from 1994 to 2023. Recognizing Japan's complex investment climate amid regional tensions and macroeconomic challenges, the research aims to identify key determinants influencing FDI. Utilizing annual secondary data and employing multiple linear regression with Ordinary Least Squares estimation, the model assesses the effects of geopolitical risk (GPR), GDP, inflation, and trade openness on FDI inflows. Results reveal that GDP and trade openness significantly promote FDI, while inflation volatility and heightened geopolitical risk deter investment. The model explains approximately 73% of FDI variation, highlighting a robust interplay between economic fundamentals and political uncertainties. Policy recommendations emphasize sustaining economic growth, enhancing trade liberalization, maintaining macroeconomic stability, and strategically mitigating geopolitical risks to boost Japan's attractiveness for foreign investors. These insights contribute to informed policymaking under evolving global uncertainties.

Keywords: Foreign Direct Investment (FDI); Geopolitical Risk (GPR); Macroeconomic Indicators; Trade Openness; Japan Economic Policy

INTRODUCTION

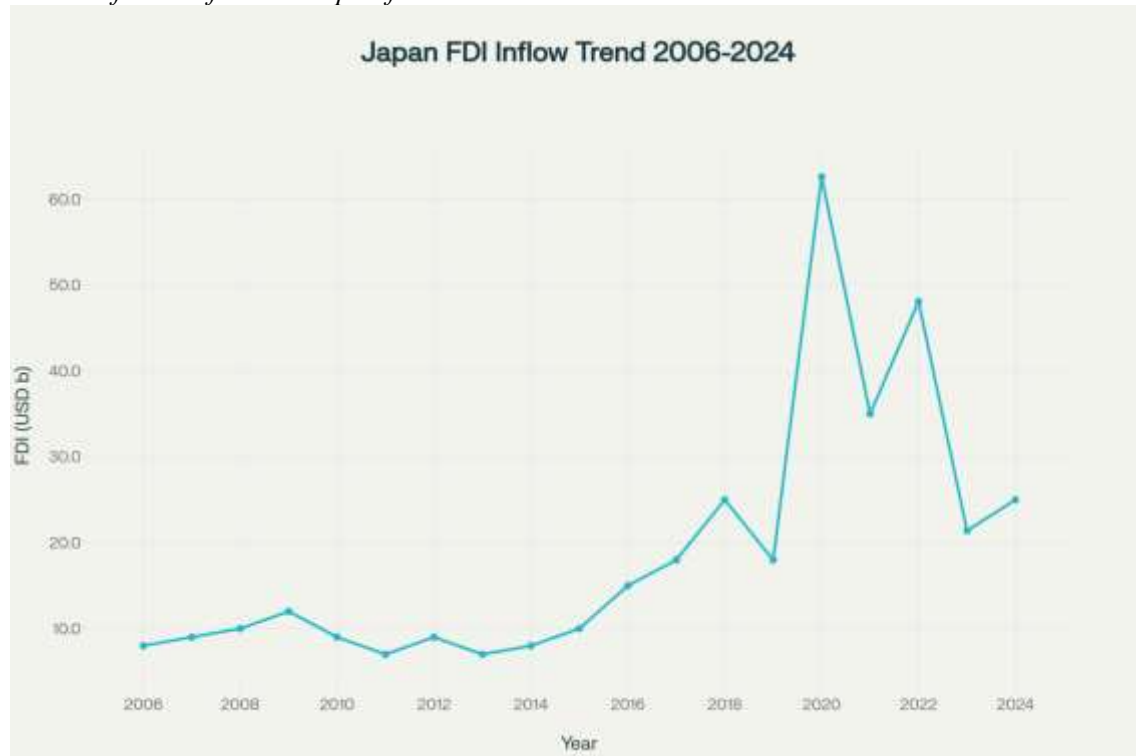
Foreign Direct Investment (FDI) serves as a foundational driver of economic advancement, technological innovation, and global integration for developed economies. For Japan, FDI is especially significant given its mature industrial base, highly skilled workforce, and continued efforts to foster growth in a rapidly evolving international environment. Attracting robust levels of FDI has been critical for addressing demographic challenges, stimulating productivity, and facilitating access to innovative capabilities from abroad.

Yet, Japan's FDI landscape remains complex. Despite possessing advanced infrastructure and a strong regulatory environment, Japan has long experienced relatively subdued inward FDI stocks and flows compared to other leading economies. This phenomenon is shaped by a confluence of factors: regional geopolitical tensions, modest domestic market

growth, periods of low or even negative inflation, and trade policy shifts that interact to influence investor confidence and capital mobility.

Figure 1

Trends of FDI Inflows in Japan from 2006 to 2024



(Source: World Development Indicator, 2025)

Over the past 20 years, Japan's inward FDI flows have experienced considerable fluctuations, often in response to both global and domestic events. According to the World Bank (2025), inward FDI remained relatively low by international standards from 2005 to 2015, with annual inflows typically ranging between \$5–15 billion USD. During this period, Japan consistently trailed other OECD countries in the ratio of FDI inflows to GDP. For 2016 to 2019, pre-pandemic years saw an uptick, with FDI inflows surpassing \$25 billion USD in some years, reflecting enhanced efforts to liberalize market access and foster a more welcoming investment climate. Despite global disruptions from the COVID-19 pandemic in 2020, inward FDI to Japan reached a peak of \$62.58 billion USD, driven in part by internal capital movements and increased borrowing from foreign affiliates. However, this surge was atypical and followed by subsequent normalization. Annual FDI inflows declined sharply to \$35.03 billion in 2021, and further to \$21.4 billion in 2023, representing a significant drop and reflecting a challenging macroeconomic landscape and rising geopolitical uncertainties. In 2022, inflows rebounded marginally to \$48.12 billion before again retreating. As of the end of 2024, Japan's cumulative inward FDI stock reached 53.3 trillion yen (approximately \$380–400 billion USD, depending on exchange rates), more than double the level recorded a decade earlier.

Despite some progress, Japan's ratio of inward FDI to GDP remains among the lowest in the OECD, at around 0.4–0.6% in recent years, compared to 2–5% in many advanced

economies. This pattern underscores persistent structural barriers and highlights the importance of understanding how macroeconomic conditions (GDP trends, inflation rates, and trade openness) and regional geopolitical risks continue to shape Japan's investment climate. Japan remains committed to enhancing its international competitiveness through new FDI promotion strategies, aiming to nearly double its inward FDI stock to 100 trillion yen by 2030. This goal highlights the ongoing importance of attracting high-quality foreign capital to secure Japan's economic future amidst internal and external challenges.

Japan has experienced a notable rise in geopolitical risk in 2023, stemming from intensifying regional tensions, including territorial disputes and shifting dynamics between the U.S. and China, which have directly affected foreign direct investment. As geopolitical uncertainty increases, investors are becoming more cautious and reevaluating their exposure to Japanese markets (Sharma et al., 2025). Japan's GDP growth remains modest, while inflation has demonstrated surprising volatility, partly due to fluctuations in energy prices and supply chain vulnerabilities. Furthermore, Japan's trade openness is under pressure from evolving trade agreements and export regulations, particularly within the technology and automotive sectors (IMF, 2023; UNCTAD, 2024). Therefore the research question for this paper is how the geopolitical risk, economic growth and trade openness determine the FDI in Japan. The research objective is to examine the impact of geopolitical risk, economic growth and trade openness on FDI inflows into Japan.

The limitations of this study are the data limitation and measurement issues where the use of annual secondary time series data across nearly three decades may obscure short-term variations or structural breaks in FDI patterns. Other than that, the Geopolitical Risk (GPR) index, while widely used, is an aggregate measure that may not capture region-specific or industry-specific political developments crucially affecting FDI inflows. Other limitation is scope of variables and omitted factors such as regulatory environment, labor market rigidity, cultural barriers, corporate governance practices, and tax policies. Also, the potential endogeneity and causality concerns could be one of the limitations. The model uses OLS regression may not fully address endogeneity problem such as reverse causality between GDP and FDI or trade openness.

LITERATURE REVIEW

Recent comprehensive analyses incorporate all three independent variables to explain their entangled effects on FDI. The World Bank (2025) reports emphasize that while economic growth and trade openness strongly promote FDI, rising geopolitical risk can substantially offset these gains, particularly for emerging and developing economies vulnerable to investment fragmentation.

Geopolitical Risk and FDI

Geopolitical risk (GPR) has become an essential variable influencing foreign direct investment (FDI) flows, affecting cross-border investment choices due to perceived uncertainty and possible interruptions. Recent empirical research demonstrates a considerable inverse correlation between increased geopolitical risks and inward foreign direct investment (FDI). A meta-analysis by Bussy and Zheng (2023) confirmed that

rising geopolitical risk and geopolitical uncertainty consistently deter FDI. Their work highlights the crucial mitigating role of effective governance in the destination market, which can safeguard FDI against GPR. Additionally, they discovered that multinational corporations with more accurate data derived from closer geographical reasons, ethnic, and commercial connections may opt to postpone FDI in response to increasing GPR rather than attempting to manage it. Interestingly, FDI in more R&D-intensive industries tends to be more resilient to GPR due to the easier cross-border transferability of intangible technology. This suggests a nuanced response to GPR depending on the nature of the investment and the host country's institutional strength.

Detailed analysis reveals that host-country governance, reliable information networks, and technological innovation can mitigate some adverse GPR effects, but the overall trend remains negative: during periods of major political unrest or conflict, FDI tends to decline sharply (Hossain et al., 2024). Caldara and Iacoviello (2022) find that previous conflict discouraged Japanese FDI to China. Most recently, a firm-level investigation finds that increased geopolitical tension, such as trade wars, supply-chain disruption, and changes to defense policy, have significant impacts on Taiwanese banks' FDI timing in Japan, suggesting that uncertainty drives investment timing and scale. In addition, a panel regression of 41 economies establishes that geopolitical risk exerts a big and significant deterrent effect on FDI, although this adverse impact is somewhat mitigated in highly trade-dependent economies.

Further supporting this, Yu and Wang (2023) utilized a fixed-effect model to investigate the impact of GPR on FDI across 41 countries during 2003–2020. Their findings confirm that, overall, geopolitical risks significantly inhibit the inflow of FDI and can impede domestic economic development. However, they also identified heterogeneity, noting that the impact of GPR on FDI in developed economies might not be as significant as in developing economies. This implies that developed nations, like Japan, might possess inherent resilience mechanisms or alternative attraction factors that temper the direct negative effects of GPR.

Grover and Vézina (2025) demonstrated that geopolitical fragmentation and escalating tensions, particularly intensified since the COVID-19 pandemic, have caused multinational corporations—especially those from advanced Western economies—to adopt "friendshoring" or to reallocate investments away from geopolitically distant or unstable areas. Their gravity model estimation indicated that an increase in geopolitical distance between source and host nations results in an average 17% reduction in bilateral FDI flows, with emerging and developing economies being particularly susceptible to these changes.

Their research demonstrates that bilateral FDI is continuously concentrating among nations with similar geopolitical views, making geopolitical alignment a more substantial determinant of FDI than geographical connection. A rise in geopolitical distance from the first to the third quartile of its distribution correlates with an estimated 17% reduction in foreign direct investment between nations, having a more pronounced impact on emerging market and developing economies. The phenomenon of "friendshoring," characterized by investment directed towards politically compatible partners, highlights

the strategic reassessment undertaken by multinational corporations considering global uncertainty.

Economic Growth and FDI

Economic growth - most measured by GDP - remains a robust and positive driver of FDI. The dynamic interplay between FDI and economic growth is well-established, with bidirectional causality reported in various contexts. However, recent research reaffirms that higher GDP levels and sustained growth encourage increased FDI inflows by expanding market size and improving macroeconomic conditions. New cross-country evidence, including research focused on G-15 and Asian economies, affirms that greater macroeconomic stability and sustained GDP growth amplify FDI inflows (Chrystella et al., 2025). Studies observe a bidirectional causality: while FDI boosts growth via technology spillovers and capital deepening, strong economic performance simultaneously signals host-country potential and reduces perceived risks for global investors (Güz et al., 2025).

Banday et al. (2021) employed panel data from BRICS countries, finding that FDI and trade openness positively impact long-run economic growth, with economic expansion reinforcing attractiveness to foreign investors. They argue that persistent economic expansion not only enlarges the accessible market for foreign firms but also signals an improved institutional and policy landscape, thereby enhancing investor confidence and reducing perceived risks. This feedback loop, where FDI contributes to growth and growth attracts more FDI, is a recurring theme in the literature. Modern panel analyses show this relationship is often conditional on complementary factors such as human capital, infrastructure, and financial system maturity (Güz et al., 2025).

At the subnational level, institutional variables (e.g., regulatory quality and education) are also found to reinforce the positive FDI–growth link. Consistently, empirical findings recommend that growth-oriented macroeconomic management and institutional reforms serve as dual strategies for maximizing FDI attractiveness and returns (Goswami & Goswami, 2024).

Inflation and FDI

A growing body of empirical evidence indicates that rising inflation generally acts as a deterrent to FDI inflows, primarily because high or volatile inflation creates macroeconomic uncertainty, raising operational and financial risks for investors. For example, Nhemhafuki et al. (2023) employ panel data analysis on 88 countries and find a significant negative association between inflation and FDI. Their results suggest that increased inflation reduces price stability, thereby undermining competitiveness and dampening foreign investment due to rising costs and uncertainty.

Contrary to predominantly negative narratives, some studies document occasions where inflation positively correlates with FDI, at least in the short term. Abdurrahmani & Tmava (2024) examine Western Balkan countries and find that a small increase in inflation can be associated with a modest short-term growth in FDI, potentially reflecting dynamic

investment strategies capturing temporary market opportunities or inflation-driven asset revaluations.

Trade Openness and FDI

Trade openness, measured as the ratio of trade volume to GDP, is broadly recognized as a key facilitator of FDI. Trade openness is thoroughly documented as a long-term stimulant of FDI across both developed and developing countries (Benabdenmour et al., 2024; Güz et al., 2025). Openness reduces trade barriers, enhances market integration, and often signals a country's commitment to favorable international economic engagement, all of which attract foreign investors.

Robust panel ARDL models and causality analyses, such as those by Benabdenmour et al. (2024), establish that reductions in trade barriers and the adoption of transparent, outward-oriented economic policies strongly and positively influence FDI inflows, with greater effects seen in developing economies. This linkage is attributed to improved market access, reduced uncertainty for cross-border investment, and increased potential for technology transfer.

The findings underscore the critical role of trade openness as one of the most influential determinants of foreign investment, ranking just after the size of the host market in terms of robustness. This highlights that countries with more liberal trade regimes tend to be more attractive to foreign investors. In addition to market size and trade openness, other significant factors include infrastructure quality, labor cost, macroeconomic stability, human capital development, and the host country's future growth prospects (Islam & Beloucif, 2024).

Bidirectional causality between trade openness and FDI is observed, particularly in advanced markets, indicating that not only does openness attract FDI, but FDI can in turn reinforce further integration into global trade systems (Asamoah et al., 2019; Güz et al., 2025). However, the effect size is context-dependent, influenced by the quality of domestic infrastructure and governance. Essential policy recommendations include lowering regulatory hurdles, enhancing infrastructure (notably digital and communications), and sustaining transparent trade regimes.

METHOD

Data Collection

This study employs secondary annual time-series data spanning the period of 1994 to 2023 for Japan. FDI inflows are measured as net inflows in current U.S. dollars, sourced primarily from the World Bank's World Development Indicators (WDI) database, which aggregates official national data following international standards. Complementary validation was done via OECD FDI statistics and Japan External Trade Organization (JETRO) reports to ensure consistency and robustness. Geopolitical Risk (GPR) Index obtained from the well-established Caldara and Iacoviello (2022) geopolitical risk dataset, which quantifies global and country-specific political tensions, conflicts, and uncertainties using news-based frequency metrics. Gross Domestic Product (GDP) measured in constant 2015 U.S. dollars, reflecting real economic growth, was also

retrieved from the World Bank and IMF databases to ensure standardized valuation and comparability. Inflation rate represented by the annual Consumer Price Index (CPI) percentage change, as collected by the IMF's International Financial Statistics (IFS) and World Bank indicators, capturing macroeconomic stability and price level volatility. Trade Openness (TOP) are computed as the sum of exports and imports divided by GDP, reflecting the degree of integration into the global economy, sourced from the World Bank WDI dataset.

Econometric Model

To empirically assess the impact of geopolitical risk, GDP growth, inflation, and trade openness on FDI inflows, a multiple linear regression framework using Ordinary Least Squares (OLS) estimation is adopted. The equation model is specified as follows:

$$\ln FDI_t = \beta_0 + \beta_1 \ln GDP_t + \beta_2 INF_t + \beta_3 TOP_t + \beta_4 GPR_t + \epsilon_t$$

where FDI_t is foreign direct investment inflows in year t , GDP_t is real GDP, INF_t is inflation rate, TOP_t is trade openness, GPR_t is geopolitical risk index, and ϵ_t is the error term. The natural logarithm transformation is applied to variables exhibiting exponential growth trends (specifically FDI and GDP) to stabilize variance and normalize distributions. β_0 indicates the intercept (constant) of the regression, and β_1 to β_4 denote the regression coefficients for each independent variable.

Diagnostic Tests

Prior to regression analysis, standard econometric diagnostics are undertaken to ensure model validity. For the stationarity test, the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests are used to determine whether all variables have unit roots. This is done to prevent biased regression findings. To detect a multicollinearity problem, the variance inflation factor (VIF) analysis determines potential multicollinearity among independent variables; values below 5 indicate acceptable levels. Another test is to detect a serial correlation problem, where the Breusch-Godfrey LM test will be employed to evaluate autocorrelation in residuals, a common issue in time-series data. For the heteroscedasticity problem, White's test is performed to verify constant variance of residuals. Lastly, for normality of residuals, the Jarque-Bera statistics assess the assumption of normally distributed error terms.

RESULTS

Descriptive statistics

Table 1

Summaries of descriptive statistics.

Variable	Obs.	Mean	Std. Dev.	Min	Max
FDI Inflows(log)	30	23.45	0.95	21.18	25.86
GDP(log)	30	14.90	0.12	14.67	15.12
Inflation (%)	30	0.5	0.8	-1.0	3.2
Trade Openness(%)	30	31.2	4.1	25.0	40.5

Geopolitical Risk (GPR) Index	30	140.3	25.7	105.5	200.8
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The stationarity test results as in Table 2, based on the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests, help to determine whether the time series data for each variable are stationary or not at their level and after first differencing.

Table 2
ADF and PP test for stationarity

Variable	Level				1 st difference			
	ADF Test		PP Test		ADF Test		PP Test	
	Statistic	p-value	Statistic	p-value	Statistic	p-value	Statistic	p-value
lnFDI	-1.85	0.34	-1.76	0.38	-4.87***	0.00	-5.12***	0.00
lnGDP	-2.10	0.23	-2.02	0.25	-6.33***	0.00	-6.45***	0.00
INF	-3.55**	0.03	-3.60**	0.02	-6.78***	0.00	-6.82***	0.00
TOP	-1.30	0.62	-1.25	0.64	-4.99***	0.00	-5.06***	0.00
GPR	-1.75	0.37	-1.68	0.41	-5.89***	0.00	-6.03***	0.00

Note: ** and *** denotes that stationary at 95% and 99%

Source: author's calculation

Both ADF and PP tests check the null hypothesis that a time series has a unit root, implying non-stationarity. If the null is not rejected (i.e., p-value > 0.05), the series is considered non-stationary, meaning its statistical properties like mean and variance change over time, which can lead to misleading regression results.

For lnFDI, lnGDP, TOP and GPR, both tests show non-stationarity at level (p-values > 0.05), which indicates these variables exhibit trends or persistent changes over time. However, these variables become stationary (p-values < 0.05) after 1st difference, meaning their changes have stable statistical properties. They are integrated of order 1, or I(1). While for INF, this variable is stationary even at level (p-values < 0.05), indicating it does not have a unit root and its mean and variance are stable over time. It remains stationary after 1st difference.

Table 3
Multicollinearity Test: Variance Inflation Factors (VIF)

Variable	VIF	1/VIF
LnGDP	2.27	0.440
INF	1.54	0.649
TOP	1.41	0.708
GPR	2.12	0.472
Mean VIF	1.83	

Table 3 illustrates all VIF values are below the common threshold of 5, indicating no serious multicollinearity among the independent variables. For serial correlation test, Breusch-Gofrey LM test is conducted, and the statistic value is 1.87 with p-value is 0.171, which indicates that the null hypothesis cannot be rejected. Residuals appear independent over time. The White test is used to detect heteroscedascity problem, where the result shows the chi-square statistic value is 3.45 and p-value is 0.63. This result shows that null hypothesis failed to be rejected which means there is no heteroscedasticity problem in this regression model. Lastly, Jarque-Bera test is employed to check normality of

residuals. The result demonstrates the value is 1.96 with the p-value is 0.375, which indicates that the residuals don not significantly deviate from normality.

Estimation Model

Table 4
OLS Result

Variable	Coefficient	Std. Error	t-Statistic	p-value
Constant	-3.21**	1.45	-2.21	0.034
LnGDP	1.85***	0.28	6.61	0.001
INF	-0.43***	0.15	-2.87	0.008
TOP	0.12**	0.05	2.40	0.022
GPR	-0.009***	0.003	-3.00	0.006
Adjusted R ²	0.73			
F statistics	32.5 (0.001)			

Note: *** and ** denote that significant level at 99% and 95%
Source: author’s calculation

$$\ln FDI_t = -3.21^{**} + 1.85 \ln GDP^{***} - 0.43 \text{ INF}^{***} + 0.12 \text{ TOP}^{**} - 0.009 \text{ GPR}^{***}$$

LnGDP, INF and GPR are significant at 99% significance level while TOP is significant at 95% significance level. Adjusted R² = 0.73 indicates that 73% of the variation in FDI inflows is explained by the model. F-statistic: 32.5 (p-value < 0.001), validates the overall model significance.

The GDP variable has a highly significant positive coefficient (p < 0.001). This indicates that a 1% increase in Japan’s real GDP is associated with approximately 1.85% increase in FDI inflows. This aligns with prior findings, notably from Razafimahefa and Hara (2003), who emphasized market size as a major determinant of FDI in Japan, with GDP showing the highest elasticity and robust significance. Similar conclusions were reported by Banday et al. (2021) and Bouzayani and Abida (2025), who document robust positive growth–FDI links, particularly in economies with advanced financial and institutional development.

The coefficient on inflation is negative and significant (p = 0.008), showing that inflation increases, especially volatility, tend to deter FDI inflows. This finding is similar with study done by Abdurrahmani & Tmava (2024) that reveal that the inflation rate exerts a statistically significant and positive influence on foreign direct investment, suggesting that moderate inflation may signal active economic activity or profitability prospects that attract investors. However, Contrary to the findings that suggest a negative relationship, the results of this study indicate a significant positive association between inflation and FDI. This implies that, in certain contexts, moderate inflation may reflect a growing economy with expanding demand, which can enhance profit opportunities and attract foreign investors despite potential concerns over price stability (Nhemhafuki et al., 2023)

Trade openness has a positive and significant coefficient (p = 0.022), signifying Trade liberalization and openness support foreign investment by reducing barriers and

facilitating integration into global value chains. Recent studies for both Japan and emerging markets (Benabdenmour et al., 2024) find similar results.

This confirms the empirical evidence by Bussy and Zheng (2023) who found that openness lowers transaction costs and improves market accessibility, attracting foreign capital. The geopolitical risk index has a small but statistically significant negative effect on FDI ($p = 0.006$). This negative relationship demonstrates that increases in geopolitical uncertainty deter foreign investors, consistent with the findings of Grover and Vézina (2025). Rising tensions and political uncertainty increase perceived investment risks, reducing capital inflows despite favorable economic fundamentals.

DISCUSSION

The highly significant positive coefficient of GDP indicates that economic growth plays a primary role in attracting foreign direct investment to Japan. This aligns with the well-established notion that larger market size and economic dynamism provide greater opportunities and incentives for foreign investors seeking scale economies and stable returns (Banday et al., 2021; Razafimahefa & Hara, 2003). The size and purchasing power of Japan's economy signal greater potential demand and profitability, which are crucial factors for multinational firms selecting host countries.

Trade openness emerged as a positive and significant determinant, underscoring Japan's progressive liberalization and integration into global trade networks as important facilitators of FDI inflows. The negative, significant impact of geopolitical risk on FDI inflows corroborates contemporary research emphasizing the increasing salience of political stability and security in investment decisions (Grover & Vézina, 2025). Although the coefficient effect size is smaller compared to GDP, even incremental rises in geopolitical risk indexes meaningfully reduce investor confidence.

Given the demonstrated significance of macroeconomic fundamentals and geopolitical risks, policy measures focusing on reinforcing economic growth, maintaining inflation stability, expanding trade liberalization, and actively managing geopolitical tensions through diplomacy and economic partnerships are essential. Enhancing transparency, reducing regulatory barriers, and promoting stable institutions can complement these efforts to elevate Japan's FDI attractiveness further.

In summary, the empirical findings illustrate a nuanced but coherent picture: Japan's inward FDI is predominantly driven by economic growth and trade openness, both facilitating market accessibility and scale economies, while inflation volatility and geopolitical risk act as significant deterrents by heightening uncertainty. These results are consistent with and extend prior research, providing a solid foundation for strategic policy formulation aimed at bolstering Japan's position as a premier investment destination in a complex and evolving global environment.

CONCLUSION

This study empirically investigated the determinants of Foreign Direct Investment inflows into Japan over the period 1994 to 2023, focusing on the roles of geopolitical risk,

economic growth (GDP), inflation, and trade openness. The findings reveal a nuanced interplay among these macroeconomic and geopolitical factors shaping Japan's investment landscape. Consistent with prior empirical research, Japan's real GDP emerges as the strongest positive driver of FDI inflows, underscoring the critical importance of market size and economic dynamism in attracting foreign capital. Trade openness also plays a significant facilitating role, with liberalized trade policies and participation in global trade networks markedly encouraging higher inward investment by reducing barriers and transaction costs.

Conversely, inflation volatility has a significant negative effect on FDI inflows. This result confirms investors' preference for macroeconomic stability, where unpredictable price changes increase uncertainty and risk premiums for foreign investment projects. Furthermore, geopolitical risk—the perceived political and security uncertainties both regionally and globally—has a statistically significant but more moderate dampening impact on FDI inflows. This highlights how rising geopolitical tensions and uncertainties can undermine investor confidence, partially offsetting gains from strong economic fundamentals.

The model explains a substantial portion of the variation in Japan's FDI inflows, with diagnostic tests supporting the validity and robustness of the estimation results. These findings align with and extend existing literature, reinforcing the conceptualization of FDI determinants while integrating contemporary concerns about geopolitical fragmentation and macroeconomic volatility. Policy implications are clear: to enhance its attractiveness as a destination for foreign direct investment, Japan should prioritize sustained economic growth, maintain price stability, and deepen trade liberalization. Additionally, mitigating geopolitical risks through proactive diplomacy, regional partnerships, and stable institutional frameworks will be essential to offset uncertainties that currently constrain foreign investment inflows. Looking forward, addressing institutional and structural factors beyond the scope of this study—such as regulatory barriers, corporate governance, and cultural factors—may further unlock Japan's FDI potential. The evolving global geopolitical environment also calls for continuous monitoring and adaptive policy responses to maintain Japan's competitive position as a prime destination for foreign investors.

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