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Geopolitical Risk, Policy Uncertainty, and Capital Flows in Emerging Markets

Neha Verma[*] and Ridhima Jain[**]

Department of Economics, Kirori Mal College
University of Delhi, Delhi, India

Abstract: Capital flow volatility has increased since the 2008 Global Financial Crisis, amplified by geopolitical tensions and global policy uncertainty. This paper examines how global policy uncertainty (GEPU), global market volatility, and country-specific geopolitical risk (GPR) affect capital inflow surges to 13 emerging economies from 2005Q1 to 2025Q1. Surge episodes are identified via trend-deviation, and drivers are analyzed using a complementary log-log model and panel GLS. Higher GEPU lowers the odds of FDI and FPI surges by 39% and 49%, respectively, while GPR reduces the odds of FDI surges by 66%. Global liquidity, trade openness, macro stability, and credit growth boost FDI, whereas global equity volatility and domestic credit booms dampen FPI.

Keywords: Foreign Direct Investment, Foreign Portfolio Investment, Geopolitical Risk, Global Economic Policy Uncertainty, Complementary Log-log Model

JEL Classification Number: F21, F30, F40

[*] Corresponding Author. Email: nverma@kmc.du.ac.in; [**]Scholar.