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# Soft Power and Institutions on Foreign Direct Investment Inflows in the ASEAN+3 Market: Insights from the COVID-19 Transition

Chanatip Suksai[1] and Narut Charoensri[2*]

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## Abstract

This study examines the combined effects of soft power and institutional determinants on Foreign Direct Investment (FDI) inflows in the ASEAN+3 market during the COVID-19 transition. Using proxy variables such as the soft power index, political stability, government effectiveness, regulatory quality, control of corruption, and the rule of law, data from the World Bank, Worldwide Governance Indicators (WGI), International Institute for Management Development (IMD), Brand Finance, and the ASEAN Secretariat for the years 2019 to 2023 were sourced and analyzed. Employing panel data regression analysis, the results revealed that both soft power and institutional factors, such as political stability, government efficiency, and regulatory quality, have a significant impact on attracting FDI to the region. This study argues that the positive perceptions and national image cultivated by soft power can foster a conducive business environment and ease FDI decision-making. Institutional factors are crucial drivers that attract FDI by promoting trust and ensuring a favorable business climate. During the COVID-19 pandemic, investors have cautiously prioritized markets with robust soft power and strong institutional frameworks to mitigate risks and seize opportunities. Therefore, ASEAN+3 countries excelling in these areas will be well-positioned to attract and retain FDI more effectively.

**Keywords:** Soft Power, Institutions, FDI, ASEAN+3, COVID-19

## Introduction

### 1. Significance of Foreign Direct Investment (FDI)

In the current competitive market, attracting FDI has become a strategic policy imperative for most countries and regions in their efforts to recover from the global economic downturn caused by the COVID-19 pandemic. By supplying capital flows, financial sources, and expertise, FDI creates funds for domestic needs, boosts the host

[1] Lecturer, International Business Management Department, School of Business Administration, Bangkok University
[2] Assistant Professor, School of International Affairs, Faculty of Political Science and Public Administration, Chiang Mai University
* Corresponding author: E-mail address: narut.c@cmu.ac.th

country's productivity, and forges partnerships with local enterprises via an array of spill-over effects, such as technology transfer, digital transformation, and managerial skills (OECD, 2021a). It also stimulates infrastructure development and business expansion, spurring market diversification and encouraging penetration of new markets.

Recent studies have shown that the role of FDI is increasingly crucial in the post-pandemic era, especially in sustaining economic growth (Appiah et al., 2023; Le & Dang, 2022; Mwakabungu & Kauangal, 2023; Rao et al., 2023; Saidi et al., 2023; Yimer, 2023). As countries navigate growth and recovery, FDI remains a vital source of large capital and catalyzes market stimulation. It plays a significant role in enhancing productivity, fostering innovation, and creating employment opportunities. Consequently, governments and policymakers view FDI as a key driver of recovery, implementing strategies to attract and retain investments that can stimulate economic activity and contribute to long-term sustainable development.

**2. Overview of FDI in the ASEAN+3 Market**

In the ASEAN+3 market, comprising ten Association of Southeast Asian Nations (ASEAN) nations, China, Japan, and South Korea, FDI has substantially driven the economic system, nurtured innovation, and heightened regional competitiveness. It has also contributed to competitiveness and development by enhancing market access, increasing foreign currency inflows, and fostering competition (Dang & Nguyen, 2021). With its market potential, strategic location, and growing consumer base, the ASEAN+3 market has consistently attracted a huge influx of FDI from various sectors, including manufacturing, services, and infrastructure (Gopalan et al., 2019; Jeong, 2014). Indeed, most ASEAN+3 countries have leveraged the FDI to expedite economic progress and development, thereby improving their business presence on a global scale (Azam et al., 2016; Gopalan et al., 2019; Hill, 1990; Kotrajaras et al., 2011; Sahoo, 2012).

Preceding the COVID-19 pandemic, the ASEAN+3 region saw a gradual surge in FDI propelled by its favorable business environments, trade liberalization, and infrastructure development initiatives. However, the pandemic has brought unprecedented challenges, dampening investor confidence and triggering a global economic downturn. Following the World Health Organization's (WHO) declaration of COVID-19 as a global pandemic on January 30, 2020, governments worldwide swiftly enforced policies, including border closures, business shutdowns, and multiple restrictions, leading to a global market slowdown. The ASEAN+3 market was no exception.

In early 2022, widespread vaccine distribution led to a significant decline in new cases and fatalities, prompting many countries to gradually lift restrictions and revive business activities. The declaration by the WHO to end the global health emergency posed by COVID-19 in May 2023 marked a pivotal moment (WHO, 2023). This announcement restored normalcy and sparked enthusiasm for FDI. See the dynamism of FDI inflows into the ASEAN+3 market preceding and following the pandemic:

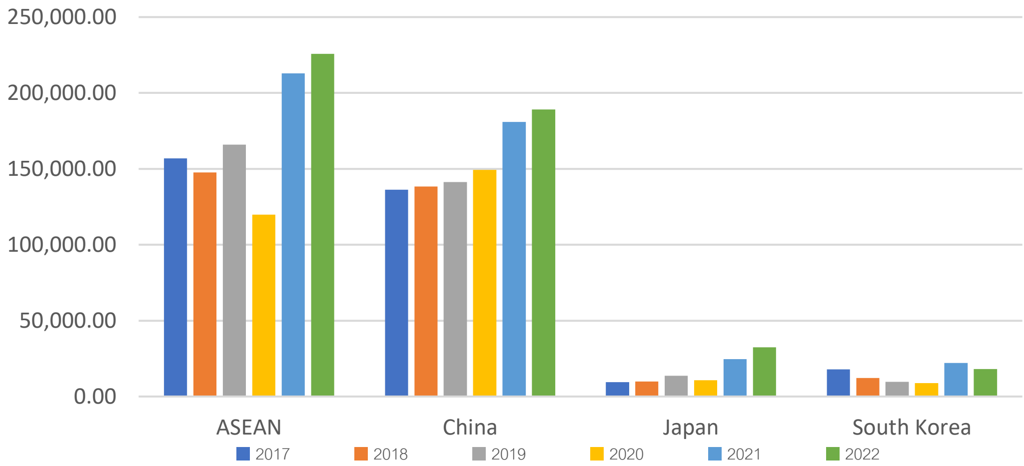


**Figure 1**: FDI inflows to the ASEAN+3 market (unit: million USD)

**Sources:** ASEAN Secretariat and UNCTAD Statistics Online 2023, modified by authors

**Notes:** 1. ASEAN's aggregated FDI comprised ten Southeast Asian economies

2. China's FDI excluded Hong Kong and Taiwan economies

3. The 2022 figure represents the latest available information, as the official data for 2023 has not yet been officially published

In 2022, FDI inflows among ten ASEAN countries rebounded and reached an all-time high of $225 billion amid the multitude of global uncertainties, including geopolitical conflicts and mounting debt pressures, as a consequence of the pandemic (The ASEAN Secretariat, 2023). Meanwhile, FDI in China, Japan, and South Korea exhibited variability, influenced by diverse market conditions and recovery speeds.

In the post-pandemic scenario, the implications for FDI in the ASEAN+3 market are multifaceted. These are intertwined with ongoing regional economic integration endeavors and new investment opportunities, potentially positioning this market as an attractive destination for FDI in the post-transition period.

**3. An Interplay between Soft Power, Institutions, and FDI**

One critical factor in attracting FDI lies not only in the strength of macroeconomic and competitiveness conditions but also in the positive influences of soft power and institutions (Bailey, 2018; Krum, 2020; Ross et al., 2019). Preceding the onset of COVID-19, contemporary research unveiled that determinants affecting FDI in the Asian-wide region mainly included the GDP, inflation, labor cost, human capital, physical infrastructure, exchange rate volatility, competitiveness, and the different aspects of institutional quality (Buracom, 2014; Kok & Acikgoz Ersoy, 2009; Masron & Nor, 2013; Nguyen & Cieŝlik, 2021; Sabir et al., 2019; Sahoo et al., 2014; Shah et al., 2016; Ullah & Khan, 2017).

A strong foundation of soft power and institutions is posited to encourage the region's ability to attract FDI and influence new perceptions among investors. Soft power enhances a country's export capabilities by improving its national and regional image, making the host country more attractive to international markets (Gallarotti, 2011; Rose, 2016). While robust institutions ensure predictability and trustworthiness, they help mitigate risks and uncertainties associated with business and FDI decision-making (May, 2018; Rodrik, 2000; Rygh et al., 2023). What are the implications of soft power and institutions in fostering and attracting FDI to the ASEAN+3 market amid the COVID-19 transition?

To date, contemporary research within the ASEAN+3 framework has yet to provide a clear understanding of how soft power and institutions affect FDI. By understanding the synergies between these factors, countries and regions can enhance their attraction and capitalize on greater FDI opportunities; this is because the outbreak has not only posed challenges to global investment but has also prompted the re-evaluation of the factors influencing the pattern of FDI. Still, the correlations among soft power, institutions, and FDI have received limited attention, particularly amidst the evolving dynamics of the COVID-19 transition in the ASEAN+3 market. These factors underscore the importance of this study in investigating the combined effects of soft power and institutional roles on FDI trends.

## Research Objectives

- To examine the collective impacts of soft power and institutional determinants influencing FDI inflows into the ASEAN+3 market during the transition of the COVID-19 pandemic.

## Literature Review

### 1. Concept of Soft Power

According to Joseph Nye, a prominent figure in political science, soft power refers to the ability to affect others to obtain the outcomes one wants through attraction and persuasion rather than coercion or payment. It stems from various factors such as diplomatic prowess, institutional credibility, national image, cultural values, and intangible resources (Nye, 1990, 2008). Amidst the evolving geopolitical landscape, Nye argued that a smart-power approach needs to combine hard and soft-power resources to achieve the policy goals; thus, soft power has been conceptualized as a tool in political discourse across nations, including Europe, China, and the United States (Nye, 2017; Nye, 2019). Implementing soft power initiatives involves allocating foreign aid, boosting social media presence, cultivating a strong national image, and promoting destination branding through cultural traditions and cuisine (Chen, 2023; Claro et al., 2023; Demirkıran & Demir, 2023; Kim et al., 2023; Seo-Young et al., 2023).

In fact, soft power is disguised within business endeavors, leveraging political ideologies and cultural diplomacy to establish trust and partnerships. This strategic method amplified opportunities for businesses and investments across diverse business domains (Lee, 2015; Lee, 2011; Liao, 2012; Mahaseth et al., 2023). According to Krum (2020), it was mentioned that for the United States, another important factor in attracting FDI is strong economic conditions and the significant influence of soft power through cultural and diplomatic means. Using soft power strategies to attract investors and promote investments is an effective approach for several economies to pursue their national interests. This is particularly evident in countries like Brazil, Argentina, Mexico, and Colombia, which rank among Latin America's top nations with substantial soft power influence (Buitrago, 2023).

In Japan, soft power is employed to elevate its recognition within the East Asian region, exemplified by hosting the 1964 Tokyo Olympics, the 2019 Rugby World Cup, and the 2020 Olympics & Paralympic Games (Jeong & Grix, 2023). The latter, in particular, garnered remarkable global attention, highlighting the host country's capacity to harness its resources for enhanced international visibility (Chatham House, 2021). This includes the concept of "Vaccine Diplomacy," where the Chinese home-grown vaccines are distributed worldwide; it serves as a technique for projecting the Chinese soft power through global vaccination efforts (Lee, 2023). India has utilized its Bollywood film industry to enhance economic gains in global markets, which aligns with its soft power diplomacy strategy (Athique, 2019). These studies employed a mixed-method technique, integrating questionnaires, government documents, focus groups, and in-depth expert interviews. They also included sentiment analyses of social media and assessments of international media coverage to assess the impact and implementation of soft power.

The development of the Global Soft Power Index, a pioneering research effort conducted by Brand Finance, a leading British brand valuation consultancy, reflects the growing prominence of the soft power concept. This index serves as a critical tool for evaluating the attractiveness of nations to international audiences based on factors such as the nation's brand strength and influence, including familiarity, cultural impact, diplomacy, education, and economic performance. See Soft Power Index in the ASEAN+3 market below:

**Table 1** Soft Power Index, ASEAN+3 Market[1] (unit: measured in a score out of 100)

| Country | 2019 | 2020 | 2021 | 2022 | 2023 | 5-Year Average[2] | Rank[3] |
|---|---|---|---|---|---|---|---|
| Thailand | 45.6 | 37.6 | 38.7 | 40.2 | 42.4 | **40.9** | **5** |
| Malaysia | 44.98 | 37.4 | 36.9 | 38.5 | 42.63 | **40.082** | **6** |
| Indonesia | 40.94 | 33..4 | 34.3 | 34.8 | 40.9 | **37.735** | **7** |
| Philippine | 36.64 | 32.5 | 33.4 | 32.2 | 38.7 | **34.688** | **8** |
| Vietnam | N.A. | 31.3 | 33.8 | 33.3 | 37.8 | **N.A.** | **-** |
| Singapore | 61.51 | 44.8 | 47.9 | 48.5 | 51 | **50.742** | **4** |
| China | 51.25 | 58.7 | 54.3 | 64.2 | 65 | **58.69** | **2** |
| Japan | 75.71 | 60.2 | 60.6 | 63.5 | 65.2 | **65.042** | **1** |
| South Korea | 63 | 48.3 | 51.3 | 52.9 | 53.9 | **53.88** | **3** |

**Sources:** Brand Finance, Global Soft Power Index

**Notes:** 1. ASEAN+3 excludes Brunie, Cambodia, Laos, Myanmar (due to data availability)

2. 5-year average is the authors' calculation

3. Rank is the authors' calculation based on the 5-year average score

**2. New Institutional Theory**

New Institutional Theory represents a framework rooted in the social sciences, focusing on a comprehensive understanding of how institutions influence behaviors, organizational dynamics, and social structures. According to Douglas North, institutions serve as the rules of the game in society. They are humanly devised constraints aiming to shape patterns of human interaction (North, 1991). Institutions can create order, reduce uncertainty, and determine transaction costs in various economic activities.

Consisting of well-established legal frameworks, transparent practices, and good governing mechanisms, contemporary research claims that institutions play a constructive role in shaping the economic structure, trade dynamics, and FDI in numerous economies (Aziz et al., 2018; Buracom, 2014; Fukumi & Nishijima, 2010; Hayat, 2019; Shah et al., 2016; Tadesse et al., 2019; Xu et al., 2017). Institutions also provide a comparative advantage and reduce transactional complexities (Nunn & Trefler, 2014; Siddiqui & Ahmed, 2013). As a result, upgrading institutional quality through legal reforms and regulatory advancements is crucial for creating a more business-friendly environment that fosters confidence in FDI and business decisions.

The aforementioned studies measured institutions using comprehensive governance metrics such as political stability, rule of law, control of corruption, government effectiveness, and regulatory quality. The Worldwide Governance Indicators (WGI), developed by the World Bank, consolidated these metrics. See institutional performance in the ASEAN+3 over the past five years below:

**Table 2** Institutional Performance, ASEAN+3 market[1]
(Unit: a combined average from Political Stability, Rule of Law, Control of Corruption, Government Effectiveness, and Regulatory Quality, measured in a score out of 100)

| Country | 2018 | 2019 | 2020 | 2021 | 2022[2] | 5-Year Average[3] | Rank[4] |
|---|---|---|---|---|---|---|---|
| Thailand | 44.63 | 46.99 | 46.62 | 46.24 | 47.74 | **46.444** | 6 |
| Malaysia | 68.18 | 66.56 | 67.14 | 65.81 | 66.89 | **66.916** | 4 |
| Indonesia | 44.81 | 43.85 | 45.47 | 46.81 | 47.55 | **45.698** | 8 |
| Philippine | 37.50 | 38.16 | 38.53 | 37.30 | 39.43 | **38.184** | 9 |
| Vietnam | 45.15 | 45.24 | 47.53 | 46.78 | 46.98 | **46.336** | 7 |
| Singapore | 98.86 | 98.86 | 98.96 | 98.96 | 98.96 | **98.92** | 1 |
| China | 48.60 | 47.93 | 49.95 | 50.61 | 48.30 | **49.078** | 5 |
| Japan | 89.74 | 88.70 | 89.65 | 89.17 | 91.51 | **89.754** | 2 |
| South Korea | 77.49 | 78.92 | 79.59 | 80.06 | 80.09 | **79.23** | 3 |

**Sources:** Worldwide Governance Indicators (2018-2022), modified by authors

**Notes:** 1. The ASEAN+3 market excludes Brunie, Cambodia, Laos, Myanmar
2. The year 2022 is the most updated data available from Worldwide Governance Indicators
3. The 5-year average is the authors' calculation
4. The rank is the authors' calculation based on 5-year average score

The conceptual model is formulated based on the underlying theories to test the relationships between independent variables (soft power, institutions, and control socioeconomic factors) affecting the dependent variable (FDI to the ASEAN+3 market) preceding and following COVID-19.

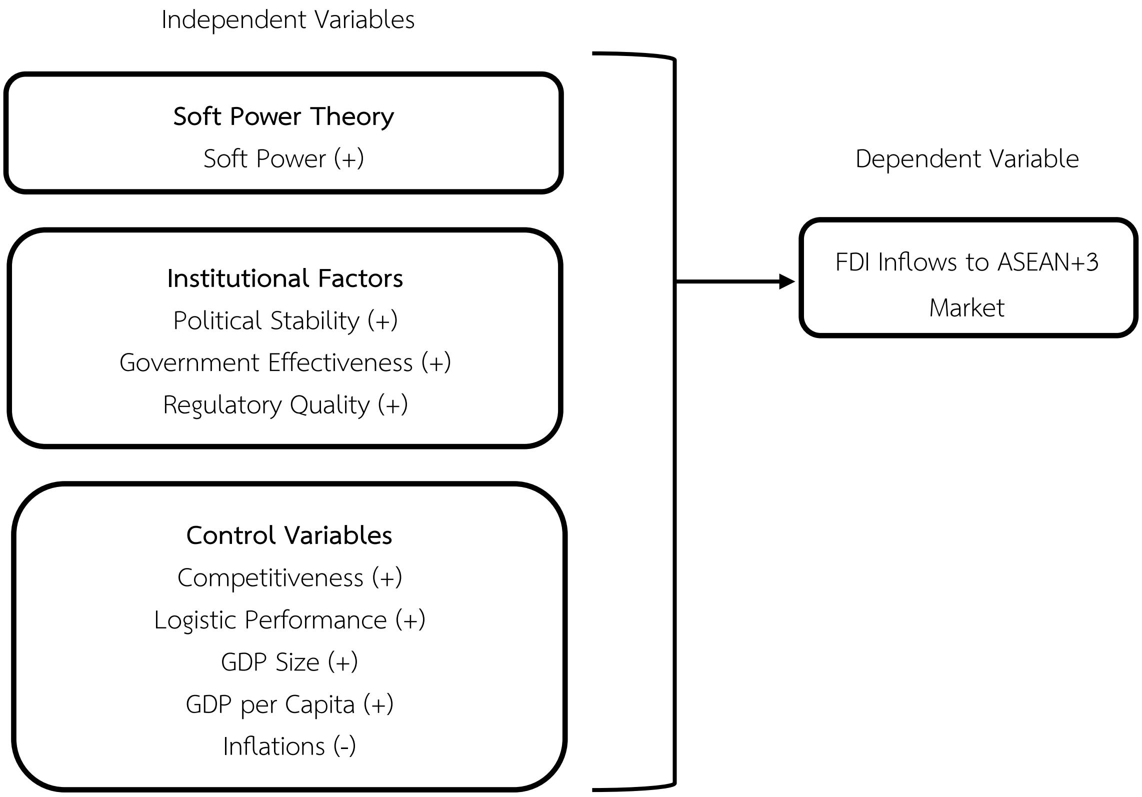


**Figure 2** Conceptual Model

## Research Methodology

### 1. Research Design

This paper is a quantitative research using the panel data regression method to examine the relationships between independent variables (soft power, institutions, and controlled socioeconomic factors) affecting the dependent variable (FDI to the ASEAN+3 market) from 2019-2023. Including the Logistics Performance Index, Competitiveness, GDP Size, GDP per Capita, and Inflation,) as control variables is essential. This step was taken to enhance the reliability of the observed relationships, thereby mitigating potential confounding effects and improving internal validity (Spector, 2021). While these variables were not the primary focus of the study, their inclusion could mitigate any analytical biases they might introduce to the relationship between the variables under scrutiny (Tessler, 2023). Regarding research limitations, it is essential to acknowledge the diversity within the ASEAN+3 market, encompassing varied economic structures, levels of country development, institutional performance, and social well-being. However, this study treated the ASEAN+3 market as a single unit for analysis. Consequently, the research outcomes provide a comprehensive overview of the ASEAN+3 market as a whole rather than offering insights at the individual country level.

**2. Data Collection and Analysis**

This study employed secondary data from online open data sources, including the World Bank, Worldwide Governance Indicator (WGI,) International Institute for Management Development (IMD,) Brand Finance, and the ASEAN Secretariat from 2019-2023. The selection of this timeframe is motivated by the significant impact of the COVID-19 pandemic, particularly the substantial fluctuations in FDI levels since the detection of the first case of the virus in Wuhan, China, on December 19, 2019, until the World Health Organization declared an end to the global health emergency in 2023 (WHO, 2019).

Nevertheless, it is crucial to note that data collection for Vietnam's competitiveness index in 2018 and the soft power index at the country level was incomplete due to limitations in the primary data sources. To address this issue, researchers used means and averages where appropriate. This approach also considered the multicollinearity among factors within the institutional domain, such as political stability, government effectiveness, regulatory quality, control of corruption, and the rule of law. The regression model revealed significant multicollinearity among these factors. Therefore, researchers decided to exclude control of corruption and the rule of law from the equation to ensure the analytical validity and rigor of the study.

**Table 3** Sign, Symbol, and Underlining Theories

| Sign | Variables | Symbol | Underpinning Theory/Concept |
|---|---|---|---|
| Y | FDI to ASEAN+3 Market | FDI | |
| X1 | Soft Power | SOFT | Soft Power Theory |
| X2 | Political Stability | POLS | New Institutional Theory |
| X3 | Government Effectiveness | GOVE | New Institutional Theory |
| X4 | Regulatory Quality | REGQ | New Institutional Theory |
| X5 | Competitiveness | COMP | Control Variable |
| X6 | Logistic Performance | LOGI | Control Variable |
| X7 | GDP Size | GDPS | Control Variable |
| X8 | GDP per Capita | GDPC | Control Variable |
| X9 | Inflation | INFL | Control Variable |

Multiple regression equation for data analysis then becomes:

$$FDI = -125446100347.366+.359SOFT+1.256POLS+.992GOVE+1.044REGQ+.433COMP +.185LOGI+.163GDPS+1.128GDPC-.107INFL$$

## Results

The overview of the ASEAN+3 market is summarized through descriptive statistics from 2019 to 2023, providing a comprehensive description of independent variables, FDI dynamics, and the number of observations under investigation.

**Table 4** Descriptive Statistics

| Sign | N | Minimum | Maximum | Mean | S.D. |
|---|---|---|---|---|---|
| FDI | 36 | -165277237079.6 | 218323780735.70 | 365755767.57 | 69803995105.53 |
| SOFT | 44 | 31.30 | 75.71 | 46.40 | 11.54 |
| POLS | 36 | 16.03 | 97.64 | 50.05 | 26.54 |
| GOVE | 36 | 53.33 | 100.00 | 74.57 | 15.96 |
| REGQ | 36 | 36.32 | 100.00 | 66.19 | 20.56 |
| COMP | 40 | 13 | 64 | 37.38 | 13.09 |
| LOGI | 44 | 3.00 | 4.30 | 3.55 | .36 |
| GDPS | 36 | 334365270496.66 | 17963171479205.33 | 2884038955473.37 | 5003197609333.27 |
| GDPC | 36 | 3224.42 | 82807.62 | 20507.30 | 22420.51 |
| INFL | 36 | -1.130 | 6.12 | 2.142 | 1.85 |

The regression analysis showed that soft power, political stability, government effectiveness, regulatory quality, competitiveness, and GDP per capita significantly influence FDI inflows into the ASEAN+3 market. These findings underscore the critical role of soft power and institutional quality in attracting FDI amid the transition caused by COVID-19. The model, with an R-squared of .750, indicates that this set of independent variables can explain approximately 75% of the variation in the dependent variable, demonstrating the model's strong predictive power.

**Table 5** Empirical Results of Regression on FDI in the ASEAN+3 Market

| Independent Variable | Dependent Variable: FDI in the ASEAN+3 Market | | |
|---|---|---|---|
| | **Coefficients (b)** | **T** | **Sig.** |
| SOFT | .359 | 2.576 | .032* |
| POLS | 1.256 | 4.138 | .000* |
| GOVE | .992 | 2.379 | .023* |
| REGQ | 1.044 | 2.666 | .012* |
| COMP | .433 | 2.576 | .014* |
| LOGI | .185 | .873 | .389 |
| GDPS | .163 | .806 | .426 |
| GDPC | 1.128 | 3.870 | .000* |
| INFL | -.107 | -1.089 | .284 |
| Constant | -125446100347.366 | -1.162 | |
| R = .866; R-squared = .750; F = 11.638; p-value = .000; Durbin Watson = 1.946 | | | |
| *Statistically significant at 0.05 level | | | |

Positive coefficient values found in proxy variables of political stability, regulatory quality, government effectiveness, and soft power, 1.256, 1.044, 0.992, and 0.359, suggested that the strength of the institutions and soft power are positively correlated to an increased FDI flow. This implies that these factors can bolster the influx of FDI by ensuring reliable legal practices, protecting investors, fostering trustworthiness, and creating a favorable business environment. They can mitigate risks and uncertainties that might disrupt the investment climate in host countries. Although the coefficient value of soft power was only .358, it demonstrated a positive correlation with FDI. This is visibly evidenced by the significant appeal of entertainment, cuisine, culture, and lifestyle trends across the ASEAN+3 market, which enhances attractiveness and fosters positive relationships with investors, thereby attracting FDI associated with these business industries.

## Discussion

### 1. Soft Power Impacts

Soft power, which includes diverse cultural assets, values, diplomatic endeavors, and the reputation of investment destinations, exhibits a crucial factor in shaping a country's image and reputation on the global stage. Positive perceptions, reinforced by soft power, can contribute to a more favorable investment climate and facilitate business decisions and FDI (Lamech & Saeed, 2003). A previous study on the effects of soft power on exports suggested that a country can sell more products internationally if consumers perceive it to have a favorable national image (Rose, 2016). This underscores the ability of soft power to generate significant collective impact among various stakeholders—governments, private organizations, and institutions—within an economy, highlighting the critical importance of enhancing the investment climate through joint efforts and strategic alignment to develop and promote the country's reputation and branding.

Cultural influence, showcased by the popularity of entertainment, cuisine, and traditional lifestyle, can increase a country's and region's attractiveness. For example, South Korea and Japan leverage their globally recognized gastronomy and pop culture to shape positive awareness, attracting FDI from specific industries aligned with these cultural exports. In addition, this includes Saudi Arabia's use of soft power in Pakistan, focusing on promoting its influence through various tools like cultural diplomacy and religious education; it is argued that investing in these aspects of soft power in Pakistan offers great economic and cultural benefits (Ahmed & Karim, 2024).

This paper contends that soft power will remain pivotal in attracting FDI to the ASEAN+3 market in the aftermath of COVID-19. Investors and business sectors often prioritize destinations that offer not only promising economic opportunities but also exhibit compelling cultural influence, robust diplomatic relations, and a favorable international reputation. These factors help promote deeper market penetration and encourage long-term commitments to FDI.

**2. Institutional Impacts**

Institutions, represented by proxy variables such as political stability, government effectiveness, and regulatory quality, will remain crucial factors contributing to the inflow of FDI into the ASEAN+3 market.

For example, Singapore's robust political stability has facilitated significant FDI inflows, with investors viewing these markets as low-risk destinations. The finding in this context aligns with the study of Rashid et al. (2017), which identifies political stability as the primary factor positively impacting FDI inflows in various Asia-Pacific countries. Government effectiveness fosters a business-friendly environment through efficient governance, transparent decision-making processes, and effective implementation of policies. With government effectiveness, South Korea exemplifies increased FDI inflows through proactive government reforms, institutional changes, and liberalization policies. These efforts have streamlined bureaucratic processes, enhancing the country's attractiveness to foreign investors (Nicolas et al., 2013).

While regulatory quality reassures effective regulations, safeguards investors, and good governing mechanisms for foreign investors. For instance, several government administrations in Thailand have reformed domestic legal frameworks and regulatory structures to facilitate international investment. These reforms include removing restrictions that previously hindered foreign investors, such as limitations on land ownership, foreign shareholdings, and the employment of expatriate workers (OECD, 2021b). From a regional standpoint, these factors collectively enhance investors' trust and confidence, positioning ASEAN+3 countries that excel in these areas for sustained FDI growth. This significantly drives economic recovery and fosters future development across the region.

**3. Other Impacts**

GDP per capita positively contributes to FDI influx to the ASEAN+3 market because it serves as a proxy for the purchasing power and wealth of the population. When GDP per capita is higher, it indicates a larger consumer base, providing opportunities for foreign investors to tap into lucrative markets and capture higher returns on their investments. Higher GDP per capita suggests a more developed economy, reducing operational risks for investors.

Nevertheless, logistics performance does not directly influence FDI due to several reasons. This could be attributed to broader considerations such as business quality (measured by Doing Business indicators) and institutional environments, which are more significant factors in attracting FDI inflows. This is evident in the case of the EU (Bardakas et al., 2023). This is because investors may prioritize factors such as political stability, regulatory incentives, and government capability when making investment decisions. Additionally, technological advancements and e-commerce have reduced reliance on traditional logistics infrastructure, enabling businesses to operate efficiently in countries with less developed networks but strong digital connectivity. Therefore, in this analytical context, the direct impact of logistics performance on FDI may be outweighed by the influence of other factors.

## Conclusion

This paper investigates how soft power and institutional factors have jointly influenced the pattern of FDI in the ASEAN+3 market from 2019 to 2023, amidst the COVID-19 transition. Using panel data regression analysis, the results provide new perspectives on the interplay between soft power and institutional impact. The findings highlighted the statistical significance of soft power, political stability, government effectiveness, and regulatory quality in influencing FDI inflows to this region. This evidence underscores the pivotal role of soft power and institutions in shaping FDI dynamics within the ASEAN+3 market.

Positive perceptions, reinforced by soft power, can contribute to a more favorable business environment and facilitate FDI decisions. For instance, South Korea and Japan have effectively showcased the popularity of entertainment, cuisine, and traditional lifestyle, which attract FDI from industries aligned with these cultural exports. Meanwhile, countries like Singapore, Malaysia, South Korea, and China have seen increased FDI inflows due to their strong political stability, effective governance, and reliable regulations. Investors would perceive these markets as low-risk, leading to positive business decisions. This paper argues that institutions, through the consideration of political stability, government effectiveness, and regulatory quality, would be dominant factors stimulating the FDI inflows into the ASEAN+3 market during the COVID-19 transition and beyond.

More importantly, in the post-COVID-19 era, investors cautiously prioritize markets with robust soft power and institutional conditions to mitigate risks and seize opportunities. They will likely feel more confident when political stability prevails, regulatory frameworks are favorable, and governments conduct investment affairs transparently and accountably. In this context, this paper urges governments and governing bodies within ASEAN+3 countries to prioritize good governance in both domestic and international affairs. This strategic approach aims to enhance the national image, thereby strengthening investor confidence and facilitating investment decisions. To this end, enhancing these aspects within the ASEAN+3 market would sustain FDI growth and foster long-term economic recovery and prosperity.

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