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The Impact of Defense Alliances on Foreign Direct Investment (FDI) Inflows in Southeast Asia: A Systematic Review

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Abstract

Background: Security and economic policy are increasingly interconnected in international relations, particularly in strategically competitive regions such as Southeast Asia. Defense alliances, traditionally viewed as security instruments, can also influence economic outcomes, including foreign direct investment (FDI). However, their effects remain complex and context-dependent, requiring a systematic review of existing evidence.
Aims: This study aimed to systematically examine the impact of defense alliances on foreign direct investment (FDI) inflows, with a particular focus on Southeast Asia, by identifying key patterns, mechanisms, and contextual factors shaping this relationship.
Methods: A systematic review following PRISMA guidelines searched seven databases from 2000–2025, identifying 64,144 records, of which 18,726 remained after applying limiters. After screening, 47 full-text articles were assessed, and 14 studies met the inclusion criteria. Methodological quality and risk of bias were evaluated using the JBI Critical Appraisal Tools, while data were analyzed using the SWiM approach
Results: Defense alliances have dual effects on FDI inflows. They can encourage investment by signaling stability, reducing risk, and enhancing institutional credibility. However, geopolitical tensions, alliance complexities, and strategic competition may deter FDI by increasing uncertainty. Their impact depends on geopolitical stability, domestic policies, and strategic approaches such as hedging, while integration with broader economic frameworks can enhance positive outcomes.
Conclusion: Defense alliances are context-dependent determinants of FDI, whose effectiveness depends on strategic alignment within broader economic and geopolitical systems. Policymakers should adopt balanced approaches to maximize economic benefits while minimizing geopolitical risks.

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INTRODUCTION

The evolving dynamics of international relations and global economic integration have underscored the growing importance of security arrangements in shaping economic outcomes, particularly in regions characterized by strategic geopolitical significance such as Southeast Asia (Lee, 2021). Among these arrangements, defense alliances have emerged as critical instruments through which states seek to enhance national security, deter external threats, and promote regional stability. In parallel, foreign direct investment (FDI) has become a vital driver of economic growth, technological transfer, and development across Southeast Asian economies (Diva et al., 2024). As governments aim to attract sustained inflows of foreign capital, understanding the factors that influence investor confidence has become increasingly significant (Lee, 2021).

For instance, agreements such as the Enhanced Defense Cooperation Agreement reflect efforts to strengthen defense cooperation and reinforce regional security frameworks (DiGiuseppe & Shea, 2021). These alliances may contribute to a more predictable and secure investment climate, thereby encouraging foreign investors to commit long-term capital. However, the relationship between defense alliances and FDI inflows is not always straightforward, as heightened militarization or geopolitical tensions particularly in contested areas like the South China Sea may also generate uncertainty and deter investment (Douch, 2024).

By conducting a systematic review of existing literature, this study evaluates the extent to which defense alliances contribute to attracting or deterring foreign investment, identifies key patterns and inconsistencies in findings, and explores the contextual factors that shape these outcomes (Rodríguez-Chávez et al., 2024). Furthermore, this review will assess how different forms of defense cooperation compare in their influence on FDI and examine potential limitations within the existing body of research (Cieslik & Khdir, 2023; Valentina et al., 2025).

Through a comprehensive synthesis of scholarly studies, this research seeks to provide valuable insights for policymakers, economists, and international relations scholars regarding the intersection of security and economic development. By understanding the implications of defense alliances on investment behavior, this study aims to inform more balanced and strategic policy decisions that foster both national security and economic growth in Southeast Asia (Bachtiar et al., 2025; Samingan et al., 2025).

METHOD

Study Design

This study employed a systematic review methodology to examine the impact of defense alliances on foreign direct investment (FDI) inflows in Southeast Asia. The researchers utilized the PICO (Population, Intervention, Comparison, and Outcomes) framework to formulate a research question that specifically addresses the relationship between security arrangements and economic investment outcomes. By synthesizing existing empirical studies, this approach aims to provide a comprehensive understanding of how defense alliances influence investor behavior and capital inflows within the region (Drezner & Hite-Rubin, 2016).

The guiding research question for this study was:
"How do defense alliances affect foreign direct investment (FDI) inflows in Southeast Asian countries?"

Table 1. Description of PICO

PICO Elements	Description
People/ Participants	Southeast Asian countries (e.g., Philippines, Vietnam, Indonesia)
Intervention	Defense alliances (e.g., bilateral and multilateral security agreements such as the Enhanced Defense Cooperation Agreement)
Comparison	Countries or periods with limited or no defense alliances
Outcomes	Foreign Direct Investment (FDI) inflows, including changes in investment volume, investor confidence, and capital stability

Search Methods

A comprehensive literature search was conducted across multiple academic databases to identify relevant studies examining the impact of defense alliances on foreign direct investment (FDI) inflows in Southeast Asia. The selected databases included ScienceDirect (303), ProQuest (15,269), SageJournal (282), Web of Science (14), JSTOR (32,719), Taylor & Francis (622), and Google Scholar (14,600), covering the publication period from 2000 to 2025 to capture both early and contemporary developments in geopolitical and economic research.

To ensure a systematic and exhaustive search, Boolean operators (AND, OR) were utilized to refine and combine search terms. Quotation marks ("") were applied for exact phrase searching, while parentheses ( ) were used to group related concepts. The search terms were carefully selected to capture all relevant literature and included the following keywords: ("defense alliances" OR "military alliances" OR "security cooperation" OR "strategic partnerships") AND ("foreign direct investment" OR "FDI inflows" OR "investment flows") AND ("Southeast Asia" OR Philippines OR Vietnam OR Indonesia) AND (impact OR effect OR relationship).

In addition, backward and forward citation tracking was employed to identify further relevant studies not captured in the initial database search. Grey literature, including policy reports from international organizations, was also considered to ensure a more comprehensive understanding of the topic. All retrieved studies were screened based on predefined inclusion and exclusion criteria to ensure relevance and methodological rigor (Rahul et al., 2024; Yan et al., 2023).

Inclusion and Exclusion Criteria

The inclusion criteria for selecting articles in this study were as follows: (1) studies that examined the relationship between defense alliances, security cooperation, or strategic partnerships and foreign direct investment (FDI) inflows; (2) articles published in accredited peer-reviewed international journals; (3) publications within the time frame of 2000 to 2025; (4) studies employing qualitative, quantitative, or mixed-methods designs, including but not limited to case studies, regression analyses, network analyses, and theoretical or conceptual approaches; and (5) articles written in English. On the other hand, the exclusion criteria included: (1) studies that did not examine defense alliances or security cooperation as a primary variable or did not analyze FDI as an outcome; (2) studies not situated within Southeast Asia or not relevant to comparable geopolitical contexts; (3) reviews, conference proceedings, protocols, case reports, theses, and dissertations; and (4) articles that were not readily accessible or unavailable for full-text download.

Screening of Articles

The screening process for this systematic review, which examines the impact of defense alliances on foreign direct investment (FDI) inflows in Southeast Asia, was conducted through a systematic and collaborative approach. Four primary reviewers (ZJPS, HKP, SHB, and SMS) spearheaded the initial stages, ensuring methodological rigor and consistency in the selection process (Banerjee, 2022).

To comprehensively identify relevant studies, predefined keywords and search terms were systematically applied across selected academic databases. The first phase of screening involved an in-depth evaluation of titles and abstracts to assess their relevance to the inclusion criteria, which emphasized studies examining defense alliances or security cooperation as the independent variable and foreign direct investment (FDI) inflows as the dependent variable, within Southeast Asian or comparable geopolitical contexts (Bakar et al., 2022).

Following the preliminary screening, full-text availability was confirmed to ensure that only accessible, complete, and methodological sound studies were considered for further evaluation. Any discrepancies or disagreements among the primary reviewers during the selection process were addressed through a secondary evaluation by an independent panel of reviewers (TBE, SSA, DEMB, DUM, and SAMD). This additional layer of review was implemented to enhance consistency, minimize potential bias, and uphold the overall integrity of the screening process.

Data Extraction

Fourteen articles that satisfied the inclusion criteria were selected for data extraction. A structured and standardized data extraction framework was employed to systematically collect and synthesize key study characteristics drawn from Appendix 1. Specifically, the extracted variables included authorship, year of publication, country or regional focus, research design, study setting, analytical or intervention model, duration or temporal scope, principal findings, and components of outcomes related to foreign direct investment (FDI) and defense or strategic cooperation dynamics (Ping et al., 2025) .

The included studies reflected substantial methodological diversity, encompassing qualitative analyses grounded in foreign policy and international relations theories, quantitative approaches such as gravity models and panel regressions, comparative case studies, network analyses, and theoretical essays. This diversity allowed for a multidimensional understanding of how defense alliances and related strategic mechanisms influence economic outcomes, particularly FDI inflows.Geographically, the studies spanned a wide range of contexts, including Southeast Asia, the Gulf Cooperation Council (GCC), Central Asia, the Asia-Pacific region, and global bilateral systems. This broad scope highlights the interconnected and transregional nature of defense-economic relationships, reinforcing the relevance of comparative geopolitical analysis in understanding investment behavior.The extracted data were systematically organized into a comprehensive summary table (Table 2, Appendix 1), which enabled structured comparison across studies in terms of theoretical frameworks, strategic models (e.g., hedging, binding, wedging, geo-economics), and outcome dimensions such as investment flows, strategic autonomy, geopolitical risk perception, and economic-security spillover effects.

Through this structured synthesis, patterns emerged regarding the conditional impact of defense alliances on FDI. Several studies demonstrated that security cooperation can enhance investor confidence and facilitate capital flow when aligned with stable institutional and geopolitical environments. Conversely, other findings emphasized that complex alliance networks, geopolitical tensions, or competing strategic interests may generate uncertainty, thereby constraining investment. Overall, the data extraction process provided a rigorous analytical foundation for comparing how different geopolitical strategies, alliance structures, and regional dynamics shape FDI outcomes. This systematic organization of evidence ensured clarity, consistency, and depth in the subsequent synthesis and interpretation of findings within the review.

Quality Assessment of Selected Articles

To evaluate the methodological quality of the selected studies, the researchers employed the Joanna Briggs Institute (JBI) Critical Appraisal Tools, which are widely recognized for assessing the rigor, validity, and reliability of diverse research designs. Given that the included articles comprised a combination of qualitative, quantitative, and mixed-methods studies, appropriate JBI appraisal checklists were applied according to the specific design of each study. These tools are extensively peer-reviewed and endorsed by the JBI Scientific Committee, ensuring a standardized and credible evaluation framework for systematic reviews (Kusuma & Zulvina, 2026).

The JBI appraisal process examined key methodological domains, including clarity of research objectives, appropriateness of study design, adequacy of data collection methods, rigor of analytical procedures, and the alignment between evidence and conclusions. For quantitative studies, particular attention was given to the robustness of statistical analyses, validity of data sources, and model specification. For qualitative studies, the assessment focused on methodological coherence, depth of analysis, and credibility of interpretations (Abhulimen & Ejike, 2024). The critical appraisal process was conducted by ZJPS, HKP, SHB, and SMS. In cases of discrepancies, an independent panel of reviewers (TBE, SSA, DEMB, DUM, and SAMD) provided guidance to ensure adherence to the quality assessment framework established by the JBI. This collaborative evaluation process strengthened inter-reviewer reliability and minimized potential bias in study selection and assessment.

Overall, the quality assessment indicated that the majority of the included studies demonstrated moderate to high methodological rigor. While some qualitative and theoretical studies presented limitations in empirical generalizability, they offered valuable conceptual insights that complemented the quantitative findings. The systematic application of the JBI Critical Appraisal Tools ensured methodological transparency and reinforced the reliability of the evidence synthesized in this review.

Risk of Bias

The risk of bias assessment for the included studies was conducted using the Joanna Briggs Institute (JBI) Critical Appraisal Tools, consistent with the framework applied in the quality assessment phase. Given the methodological diversity of the included articles, a unified JBI-based approach was utilized to ensure consistency, transparency, and comparability across qualitative, quantitative, and mixed-methods studies (Knop et al., 2024).

Each study was evaluated across key methodological domains, including the clarity of research objectives, appropriateness of study design, adequacy of data collection procedures, integration of evidence, validity of analysis, and coherence between findings and conclusions. Studies were then categorized as having low, moderate, or high risk of bias based on the proportion of criteria met, following standard JBI interpretation thresholds (Khoshakhlagh et al., 2025).

Overall, the majority of the included studies demonstrated low risk of bias, reflecting strong methodological rigor and well-aligned research frameworks. Several studies, particularly those employing empirical and quantitative approaches such as regression models and network analyses, showed high levels of methodological consistency and transparency, meeting most or all appraisal criteria.

However, a subset of studies, particularly theoretical essays and qualitative analyses, exhibited moderate risk of bias due to limitations in methodological transparency, incomplete reporting of data collection processes, or partial integration of analytical components. These limitations were primarily associated with the nature of conceptual and interpretive research rather than methodological flaws per se.

Despite these variations, no study was classified as having a high risk of bias. The overall body of evidence was therefore considered methodologically sound, providing a reliable foundation for synthesis. The use of the JBI Critical Appraisal Tools ensured a systematic and standardized evaluation, strengthening the credibility and robustness of the review findings.

Table 2. Joanna Briggs Institute (JBI) Critical Appraisal Tool for Mixed Methods

Author(s) & Year	**Q1**	**Q2**	**Q3**	**Q4**	**Q5**	**Q6**	**Q7**	**% Yes**	**Overall Interpretation**
Shahbaz & Hassaniyan, 2025	Y	Y	U	Y	Y	Y	U	86%	Moderate risk of bias
Pekkanen, 2025	Y	U	U	Y	Y	Y	U	71%	Moderate risk of bias
Sim & Aminjonov, 2024	Y	Y	Y	Y	Y	Y	Y	100%	Low risk of bias
Zaccagnini & Calcara, 2025	Y	Y	U	Y	Y	Y	Y	86%	Low risk of bias
Sim, 2022	Y	Y	Y	Y	Y	Y	U	86%	Low risk of bias
Jurakovaite & Gaigaliene, 2026	Y	Y	Y	Y	Y	Y	Y	100%	Low risk of bias
Southgate, 2023	Y	Y	U	Y	Y	Y	U	86%	Moderate risk of bias
Butcher, 2024	Y	Y	Y	Y	Y	Y	Y	100%	Low risk of bias
Tang, 2025	Y	Y	U	Y	Y	Y	U	86%	Moderate risk of bias
Jahanzaib & Ahmed, 2024	Y	Y	Y	Y	Y	Y	Y	100%	Low risk of bias
Kinne & Peinhardt, 2024	Y	Y	Y	Y	Y	Y	Y	100%	Low risk of bias
Wei et al., 2025	Y	Y	Y	Y	Y	Y	Y	100%	Low risk of bias
Tran et al., 2025	Y	Y	U	Y	Y	Y	Y	86%	Low risk of bias
Gerstl, 2020	Y	Y	U	Y	Y	Y	U	86%	Moderate risk of bias

Note: (Y) criterion is fully met, indicating high methodological quality, (U) criterion is partially met or not explicitly stated, leading to some uncertainty, (N) criterion is not met, indicating a potential risk of bias or methodological weakness.

Data Analysis

The authors employed the Synthesis Without Meta-Analysis (SWiM) guidelines for data analysis to ensure a systematic, transparent, and structured synthesis of findings across heterogeneous study designs. Given the diversity of the included literature, ranging from qualitative case studies and theoretical analyses to quantitative regression models and network-based approaches, a narrative synthesis was deemed most appropriate for integrating the evidence.

The initial phase of analysis involved categorizing the included studies into key analytical components, including author and year of publication, geographical focus, research design, study setting, analytical or intervention model, duration or temporal scope, outcome variables, and key findings. This step enabled a structured organization of evidence and ensured consistency in comparing studies with varying methodologies and theoretical orientations.

Subsequently, the synthesis examined the different analytical approaches utilized across studies, such as neoclassical realism, foreign policy analysis, hedging strategies, gravity models, panel regression, and network analysis. Particular attention was given to how defense alliances, strategic partnerships, and security cooperation mechanisms were operationalized and how these influenced foreign direct investment (FDI) inflows and related economic outcomes.

A comparative analysis of findings was then conducted to identify recurring patterns, divergences, and contextual variations. The synthesis focused on key thematic dimensions, including the role of defense alliances in enhancing investor confidence, the impact of geopolitical risk and strategic competition on investment flows, and the interaction between security frameworks and economic cooperation mechanisms. Additionally, the analysis considered how regional dynamics, such as great power competition and state-level strategic autonomy, shaped the relationship between defense alliances and FDI.

To facilitate structured interpretation, the synthesized data were presented in a comprehensive summary table (Table 2, Appendix 1), allowing for systematic comparison of study characteristics and findings. This tabulation supported the identification of methodological strengths and limitations, as well as the consistency of evidence across different contexts. Overall, the application of the SWiM framework enabled a rigorous and transparent synthesis of complex and multidisciplinary evidence, providing a clearer understanding of how defense alliances influence FDI inflows within Southeast Asia and related geopolitical settings.

RESULTS AND DISCUSSION

Results

Characteristics of the Selected Studies

A total of fourteen studies were included in the final review. The study selection process, guided by the PRISMA framework, initially identified a large pool of articles from multiple academic databases. Following the application of predefined limiters, screening of titles and abstracts, and full-text eligibility assessment, only those studies that met the inclusion criteria and demonstrated sufficient methodological quality were retained for analysis (Figure 1).

The included studies reflect a broad geographical distribution, encompassing regions such as Southeast Asia, the Gulf Cooperation Council (GCC), Central Asia, Europe, and the wider Asia-Pacific. Several studies focused explicitly on Southeast Asian contexts, including analyses of ASEAN relations, the South China Sea dynamics, and Belt and Road Initiative (BRI) engagements, while others adopted a global or comparative perspective on defense and investment networks. This geographical diversity underscores the transregional nature of the relationship between defense alliances and foreign direct investment (FDI).

In terms of research design, the selected studies demonstrated considerable methodological variation. These included quantitative approaches such as gravity model analysis, panel regression using big data, and network analysis of bilateral treaties, as well as qualitative methodologies grounded in foreign policy analysis, balance of power theory, and case study approaches. Additionally, several studies employed theoretical or conceptual frameworks, including neoclassical realism, interdependence theory, and geo-economic perspectives, to interpret state behavior and strategic decision-making.

Regarding analytical focus, the studies examined a range of intervention or strategic models related to defense alliances and economic outcomes. These included mechanisms such as defense cooperation agreements (DCAs), bilateral investment treaties (BITs), hedging strategies, strategic partnerships, “wedging” and “binding” approaches, and large-scale initiatives such as the Belt and Road Initiative (BRI). The temporal scope of the studies also varied significantly, with some adopting longitudinal analyses spanning multiple decades, while others focused on recent geopolitical developments from the 2010s to 2025.

Across the included studies, findings revealed both convergent and divergent patterns. Several studies highlighted that defense alliances and security cooperation can enhance investor confidence, facilitate economic cooperation, and contribute to increased FDI inflows, particularly in stable geopolitical environments. Conversely, other studies emphasized that complex alliance networks, geopolitical tensions, and strategic competition may introduce uncertainty, potentially constraining investment flows. These contrasting findings suggest that the impact of defense alliances on FDI is highly context-dependent and influenced by broader political and economic conditions.

Overall, the diversity of study designs, regional contexts, and analytical frameworks highlights the multifaceted nature of the relationship between defense alliances and FDI. This variation not only reflects the complexity of global economic-security interactions but also strengthens the robustness of the review by incorporating a wide range of perspectives and methodological approaches.

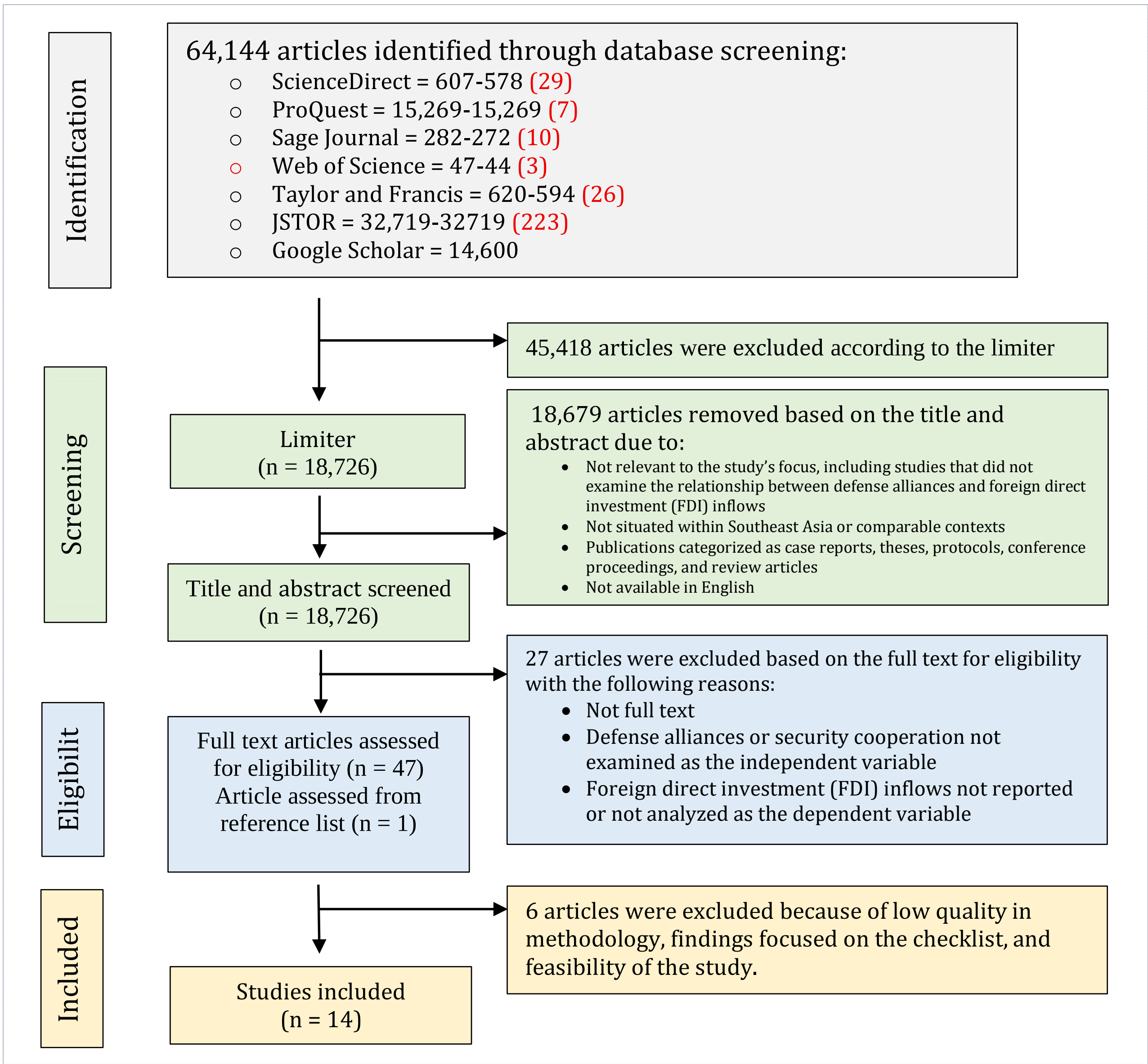

Figure 1. PRISMA flowchart

Participants and study settings

Unlike experimental or intervention-based reviews that focus on human participants, the included studies in this systematic review primarily examined state-level actors, geopolitical systems, and international economic relationships. As such, the "participants" in this context refer to countries, regional blocs, and institutional arrangements involved in defense alliances and foreign direct investment (FDI) dynamics.

Across the fourteen included studies, the settings varied from country-specific analyses to regional and global systems. Several studies focused on Southeast Asian countries, particularly in relation to ASEAN dynamics, South China Sea disputes, and China's growing economic and strategic influence. Other studies examined regions such as the Gulf Cooperation Council (GCC), Central Asia, and the broader Asia-Pacific, while some adopted a global perspective by analyzing bilateral treaty networks and international investment flows.

The units of analysis differed depending on the research design. Quantitative studies commonly utilized country-level datasets, bilateral investment flows, or large-scale event data to examine patterns in FDI and security cooperation over time. For instance, some studies employed longitudinal datasets spanning multiple decades, capturing shifts in geopolitical alignments and investment behavior. In contrast, qualitative and case study approaches focused on specific country cases, such as Vietnam, Malaysia, Pakistan, and Myanmar, to provide in-depth insights into foreign policy strategies, alliance behavior, and economic decision-making processes.

Additionally, several studies examined institutional or structural settings, including bilateral agreements such as Defense Cooperation Agreements (DCAs) and Bilateral Investment Treaties (BITs), as well as broader strategic frameworks like the Belt and Road Initiative (BRI) and regional partnership mechanisms. These settings provided the analytical context through which the interaction between security arrangements and economic outcomes was assessed.

Overall, the diversity of participants and study settings reflects the complex and multi-layered nature of international relations and global investment systems. By incorporating analyses at the national, regional, and global levels, the review captures a comprehensive picture of how defense alliances and geopolitical strategies influence FDI inflows across different contexts.

Characteristics of Defense Alliance Mechanisms and Analytical Approaches

The included studies demonstrate that defense alliances are not treated as uniform constructs but are operationalized through diverse mechanisms and interpreted multiple theoretical and analytical frameworks. Across the literature, defense alliances extend beyond formal military treaties and are embedded within broader strategic, economic, and geopolitical arrangements.

One of the most prominent mechanisms identified is the use of formal bilateral and multilateral

agreements, particularly Defense Cooperation Agreements (DCAs) and Bilateral Investment Treaties (BITs), which serve as institutional linkages between security and economic cooperation. These agreements were frequently analyzed as complementary instruments that shape both strategic alignment and investment behavior (Kinne, 2018). In addition, strategic partnerships emerged as flexible and less institutionalized forms of alliance-building, allowing states to navigate shifting geopolitical dynamics while maintaining economic engagement.

Another key mechanism observed across studies is the adoption of hedging strategies, particularly among smaller or middle powers (Hanley & Chankseliani, 2026). Rather than aligning exclusively with a single major power, states employ hedging to balance competing interests and minimize risks associated with geopolitical uncertainty (Sims & Lee, 2025). Similarly, strategies such as "binding" and "wedging" were identified as tools used by major powers to influence the alignment decisions of target states, particularly in technologically sensitive domains such as 5G infrastructure.

Large-scale geopolitical and economic initiatives also function as indirect alliance mechanisms. For instance, China's Belt and Road Initiative (BRI) was examined as a platform that integrates infrastructure development with strategic influence, thereby shaping both regional security dynamics and investment flows. In parallel, regional engagement frameworks, such as ASEAN partnerships and

"Global Britain" strategies, highlight how defense cooperation is increasingly intertwined with diplomatic and economic objectives (Diva et al., 2024).

From an analytical perspective, the studies employed a wide range of theoretical frameworks to interpret these mechanisms. These included neoclassical realism, which emphasizes the interaction between domestic and systemic factors in shaping foreign policy. Foreign Policy Analysis (FPA), which focuses on state-level decision-making processes (Sims & Lee, 2025) and interdependence theory, which examines mutual reliance between states in economic and security domains. Additionally, quantitative approaches such as gravity models, panel regression using big data, and network analysis were used to capture structural relationships between alliances and investment flows (Kinne, 2018).

Across these approaches, a recurring theme is the concept of economic-security interlinkage, where defense alliances influence investment not only directly but also through signaling effects, risk perception, and institutional frameworks. This highlights that alliances operate within a broader system of geopolitical and economic interactions rather than as isolated variables. Overall, the diversity of mechanisms and analytical approaches reflects the complexity of defense alliances in contemporary international relations. By integrating institutional, strategic, and theoretical perspectives, the included studies provide a comprehensive understanding of how defense cooperation is structured and analyzed in relation to foreign direct investment.

Effects of Defense Alliances on Foreign Direct Investment (FDI) Inflows

The synthesis of the included studies reveals that the relationship between defense alliances and foreign direct investment (FDI) inflows is multifaceted and contingent upon geopolitical, institutional, and strategic conditions. Rather than producing uniform outcomes, defense alliances exert both enabling and constraining effects on investment flows, depending on how they are structured and perceived within the international system.

A central finding across several studies is the positive signaling effect of defense alliances on investor confidence. Security cooperation arrangements, including DCAs and strategic partnerships, contribute to perceptions of political stability and reduced risk, thereby encouraging foreign investment. Empirical and network-based analyses indicate that when defense and investment agreements are structurally aligned, they generate complementary spillover effects that facilitate economic cooperation and capital inflows (Kinne, 2018). Similarly, geo-economic perspectives suggest that alliances can serve as stabilizing mechanisms that attract long-term investment by reinforcing predictable policy environments.

In regional contexts, particularly in Southeast Asia, defense alliances are often linked with enhanced economic integration and development-oriented investment. Engagement through multilateral frameworks and infrastructure initiatives, such as ASEAN partnerships and the Belt and Road Initiative (BRI), was found to promote investment by improving connectivity, expanding market access, and strengthening interdependence. These findings underscore the role of alliances as facilitators of broader economic cooperation beyond purely security objectives.

However, the review also identifies contradictory and conditional effects. In some cases, extensive involvement in defense networks may hinder investment by creating strategic constraints or competing priorities. For instance, participation in dense alliance networks can reduce the likelihood of forming investment agreements due to conflicting alignments or institutional incompatibilities (Kinne, 2018). Moreover, geopolitical tensions, particularly those arising from great power competition, introduce uncertainty that can negatively affect investor behavior. This is evident in studies examining the South China Sea, where geopolitical events significantly influenced regional perceptions and investment decisions.

Another critical dimension is the role of strategic autonomy and hedging behavior. States often adopt flexible strategies to navigate complex geopolitical environments, balancing relations with multiple powers to maintain access to diverse economic opportunities. Such strategies were shown to mitigate risks and sustain investment inflows even in contested regions. This suggests that the impact of defense alliances is not deterministic but mediated by state agency and policy choices.

Domestic and regional political dynamics further shape the relationship between alliances and investment. For example, evolving foreign policy orientations within the Gulf Cooperation Council (GCC) reflect increasing autonomy and divergence from traditional alliance structures, influencing both security alignments and economic trajectories. Similarly, domestic priorities and leadership strategies play a crucial role in determining how alliances are leveraged for economic gain.

The findings also highlight the importance of economic-security interdependence, where investment decisions are closely tied to strategic relationships. In some contexts, strong interdependence can sustain investment even amid political instability, as seen in China–Myanmar relations, where mutual reliance drives continued economic engagement. Conversely, global investment trends such as "friend-shoring" indicate a growing preference for politically aligned and lower-risk environments, potentially limiting investment in geopolitically sensitive regions (Jurakovaitė & Gaigaliene, 2026).

Overall, the evidence suggests that defense alliances function as conditional determinants of FDI inflows. Their impact is shaped by a combination of geopolitical stability, institutional frameworks, strategic alignment, and domestic policy choices. While alliances can enhance investor confidence and facilitate economic cooperation, they may also generate uncertainty when embedded within competitive or unstable geopolitical contexts. This nuanced synthesis highlights that the effectiveness of defense alliances in attracting FDI depends not merely on their presence but on how they are strategically managed and integrated within broader economic and political systems.

Discussion

The findings of this systematic review highlight that defense alliances play a nuanced and conditional role in shaping foreign direct investment (FDI) inflows, operating not merely as security arrangements but as strategic signals embedded within broader geopolitical and economic systems. Across the included studies, defense alliances were shown to influence investor behavior through mechanisms of risk perception, institutional alignment, and geopolitical stability. This reinforces the argument that security and economic domains are increasingly intertwined in contemporary international relations.

A central insight emerging from the analysis is the positive signaling function of defense alliances, where formal agreements and strategic partnerships enhance investor confidence by projecting political stability and security assurance. Empirical evidence from network-based and geo-economic studies demonstrates that when defense cooperation aligns with economic frameworks, such as bilateral investment treaties or infrastructure initiatives, it generates complementary spillover effects that facilitate capital inflows (Kinne, 2018). These findings are consistent with recent literature emphasizing that political stability and institutional credibility are key determinants of FDI attractiveness (Cai et al., 2021).

Furthermore, the review underscores that defense alliances are most effective in promoting FDI when integrated within broader economic cooperation frameworks, particularly in regions such as Southeast Asia. Initiatives like regional partnerships and large-scale infrastructure programs contribute to improved connectivity, reduced transaction costs, and enhanced interdependence, thereby attracting investment. This aligns with findings from recent studies indicating that regional integration and infrastructure development significantly increase FDI inflows by lowering uncertainty and facilitating market access.

However, the relationship between defense alliances and FDI is far from linear. The findings reveal contradictory dynamics, where alliances can also generate uncertainty, particularly in contexts characterized by great power competition and geopolitical tension (nguyen. This is supported by recent empirical research suggesting that geopolitical risk has a statistically significant negative effect on FDI flows, particularly in politically volatile regions (Truong et al., 2024).

Another critical dimension is the role of strategic autonomy and hedging behavior, particularly among small and middle powers. Rather than fully committing to a single alliance structure, states adopt flexible strategies to balance competing geopolitical interests while maintaining access to diverse investment sources (Schatz & Benatar, 2020). This strategic flexibility enables countries to mitigate risks associated with overdependence and geopolitical entanglement. Such findings resonate with recent scholarship on hedging and multi-alignment strategies, which argues that states increasingly pursue diversified partnerships to maximize economic benefits while preserving sovereignty (min.

The review also highlights the importance of domestic and regional political dynamics in mediating the effects of defense alliances on FDI. For example, shifts in foreign policy orientation within the Gulf Cooperation Council (GCC) reflect growing autonomy and divergence from traditional alliance patterns, influencing both security alignments and investment trajectories. This finding aligns with recent literature emphasizing that domestic institutions, leadership preferences, and policy consistency significantly shape a country's ability to attract foreign investment

Moreover, the concept of economic-security interdependence emerges as a defining feature of the relationship between defense alliances and FDI. In certain contexts, strong interdependence sustains investment flows even amid political instability, as seen in cases where strategic necessity outweighs perceived risks (Lozada & J., 2025). Conversely, emerging global trends such as "friend-shoring" indicate a shift toward politically aligned investment patterns, where investors prioritize stability and ideological alignment over purely economic considerations (Jurakovaitė & Gaigaliene, 2026).

Despite the overall robustness of the findings, the review also identifies several limitations within the existing literature. The diversity of methodological approaches, while enriching the analysis, introduces challenges in comparability and generalization. Qualitative and theoretical studies, although valuable in providing conceptual depth, often lack empirical validation, while quantitative models may not fully capture the complexity of geopolitical dynamics. This suggests the need for more integrated methodological approaches that combine empirical rigor with theoretical insight.

In sum, the findings of this study contribute to a more refined understanding of how defense alliances influence FDI inflows. Rather than acting as uniformly positive or negative determinants, alliances function as context-dependent strategic instruments, whose effects are shaped by geopolitical stability, institutional quality, and state-level decision-making. This underscores the importance for policymakers to adopt balanced strategies that align security objectives with economic priorities, ensuring that defense cooperation enhances rather than constrains investment potential.

Implications for Future Research and Practice

The findings of this study underscore the strategic importance of aligning defense alliances with economic objectives to optimize foreign direct investment (FDI) inflows. Rather than treating security arrangements and economic policies as separate domains, policymakers must recognize their increasing interdependence and design integrated strategies that enhance both national security and economic competitiveness. The evidence suggests that well-structured defense alliances can serve as credible signals of stability and reliability, thereby attracting investment, but only when supported by coherent domestic policies and stable geopolitical positioning.

For policymakers, this implies the need to adopt a balanced and adaptive approach to alliance formation, particularly in regions characterized by great power competition. States should avoid overdependence on a single strategic partner and instead pursue diversified and flexible partnerships that reduce geopolitical risk while maintaining access to multiple sources of investment. This aligns with the observed effectiveness of hedging strategies, which allow states to navigate complex geopolitical environments while sustaining economic engagement. In practice, this means strengthening regional cooperation frameworks, enhancing institutional credibility, and ensuring policy consistency to build long-term investor confidence.

Furthermore, governments should prioritize the development of complementary economic mechanisms alongside defense alliances, such as infrastructure initiatives, trade agreements, and investment protection frameworks. The findings indicate that defense cooperation is most effective in attracting FDI when embedded within broader economic strategies that improve connectivity, reduce transaction costs, and promote regional integration. This suggests that defense alliances should not be pursued in isolation but as part of a comprehensive geo-economic strategy.

At the institutional level, there is a growing need to establish clear policy frameworks that manage the economic implications of geopolitical alignment. As global trends such as "friend-shoring" and geopolitical fragmentation reshape investment patterns, countries must ensure that their alliance choices do not inadvertently limit access to diverse investment sources. Transparent governance, regulatory stability, and risk mitigation mechanisms will be critical in maintaining investor trust in increasingly uncertain environments.

From a research perspective, the study highlights the need for more integrated and methodologically diverse approaches in examining the relationship between defense alliances and FDI. Future research should aim to combine quantitative models with qualitative and theoretical insights to better capture the complexity of geopolitical-economic interactions. Longitudinal and comparative studies across regions would also be valuable in identifying causal mechanisms and temporal variations in alliance-investment dynamics.

Additionally, further research is needed to explore the micro-level determinants of investor behavior, including how firms perceive and respond to security arrangements, geopolitical risks, and policy signals. While existing studies provide valuable macro-level insights, a deeper understanding of firm-level decision-making would enhance the explanatory power of the field. This is supported by recent literature emphasizing the role of firm heterogeneity and risk perception in shaping international investment decisions.

Finally, future studies should examine the implications of emerging global trends, including digital geopolitics, supply chain restructuring, and evolving security architectures, on FDI flows. As the international system becomes increasingly complex, understanding how new forms of strategic competition influence economic behavior will be essential for both scholars and policymakers. In essence, the findings call for a more holistic and forward-looking approach, where defense alliances are strategically leveraged not only for security purposes but also as instruments of economic development, carefully calibrated to maximize benefits while minimizing geopolitical risks.

CONCLUSION

This study provides a systematic synthesis of existing literature on the relationship between defense alliances and foreign direct investment (FDI) inflows, revealing that alliances function as conditional and context-dependent determinants of economic outcomes. The findings demonstrate that defense cooperation can enhance investor confidence and facilitate capital inflows when embedded within stable geopolitical and institutional environments. At the same time, the evidence highlights that alliance structures may also generate uncertainty, particularly in contexts marked by geopolitical rivalry and strategic competition. These contrasting dynamics underscore that the economic effects of defense alliances are shaped not merely by their presence but by how they are structured, perceived, and integrated into broader policy frameworks.

Moreover, the study emphasizes that strategic flexibility, particularly through hedging and diversified partnerships, plays a critical role in moderating the relationship between security arrangements and investment flows. The interplay between domestic political factors, regional dynamics, and global economic trends further reinforces the complexity of alliance-driven investment behavior. As such, policymakers must adopt a balanced and adaptive approach that aligns security objectives with economic priorities while minimizing exposure to geopolitical risk. Ultimately, this review contributes to a more nuanced understanding of the security-economy nexus and highlights the need for integrated strategies that leverage defense alliances as instruments of both stability and sustainable economic development.

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