International Journal of Innovation, Creativity and Change. www.ijicc.net
Volume 6, Issue 10, 2019

An Analysis of the Literature on Political Stability and Foreign Direct Investment

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It is widely believed that foreign direct investment plays an essential role in the growth path of developing economies by augmenting domestic capital to meet the desired gross investment and growth target. This paper reviews recent empirical literature on the rapport of political stability and FDI inflow from 2000 to 2017. The growing significance of institutional environment in encouraging FDI inflow as well as the increasing literature on the link between these factors motivated us to review the empirical studies in this area. The paper has revealed that various models have been employed by previous studies in analyzing political stability-FDI nexus depending on the aim of the study. Most of these empirical investigations reported positive significant relationships, though some studies have concluded otherwise. The findings of various scholars have been discussed and areas of concern have been highlighted. The paper concludes on the need for more studies in this area and makes suggestions for future research so as to come up with more appropriate recommendations that are suitable to different jurisdictions with the whole objective of promoting FDI inflow to support economic growth and development.

Key words: *FDI, Political Stability, Developing Countries.*

Introduction

Foreign Direct Investment (FDI) is commonly considered as a vital element of capital formation, particularly for developing countries. This is especially so, because economists consider FDI as key component of economic growth process for developed and developing economies (Shahzad & Al-Swidi, 2013). The significance of FDI in enhancing economic activities as well as stimulating growth and its attendant multiple benefits have been well documented (Choe, 2003; Chowdhury & Mavrotas, 2006; Iamsiraroj & Ulubaşoğlu, 2015). Consequently, the inability of most developing economies to generate sufficient savings to meet their desired gross investment and support growth target has been their inspiration for pursuing foreign capital to complement domestic investment in their developmental drive (Asiedu, 2002; Mbulawa & Mehta, 2016).

FDI according to United Nations Conference on Trade and Development (1999) is an investment which involves long term relationship as well as lasting interest and control in an enterprise located in an economy by an entity that is resident in another economy. Essentially, it is the stock of tangible assets held in an economy by an investor residing in another country. Apart from the provision of foreign capital for bridging savings-investment gap, FDI is believed to promote technical knowledge and managerial skills, boost domestic investment through marching funds, enhance competition in local market, generates opportunities for modern jobs and enhance access to global market for export commodities, among other benefits which have significant impact on the host economy (Quazi, 2014).

The increasing significance of FDI in the growth dynamics of modern economy as well as the impact of globalization which has aided the flow of investment, goods as well as services among various countries have heightened the drive to attract FDI inflow by different competing countries (Ajide & Raheem, 2016). These have resulted to substantial expansion in the amount of global FDI flow in the last few decades, particularly from the 1980s. For instance, global FDI flow rose from USD54 billion in 1980 to USD204 billion in 1990, USD1,358 billion in 2000, USD1,371 billion in 2010 and USD1,921 billion in 2015 before declining to USD1,429 billion in 2017 (UNCTAD, 2018). The FDI inflow to developing economies as well as various regions and countries have also improved correspondingly. However, the ability of different regions and individual countries to attract inflow of FDI vary considerably.

Arising from the recognition of the diverse benefits of FDI, most developing economies particularly African countries, have been making deliberate efforts through policy reforms and improvements in their macroeconomic environment in order to encourage FDI inflow (Ajide & Raheem, 2016). However, while the developing economies of America and Asia were able to entice significant inflow of FDI especially from the 1990s, the developing countries of Africa have not been quite successful in attracting substantial FDI inflow (Asiedu, 2002). In fact, Sub-Saharan Africa (SSA) has only succeeded in attracting on the average less than three percent of the global FDI in the last four decades, thereby prompting Ferreira and Ferreira (2016) to conclude that SSA is marginalized in the global FDI flow.

Dunning (2003) argued that the shift in the drive of the Multinational Corporations (MNCs) from market seeking as well as resource seeking to efficiency consideration has contributed to the growing relevance of institutional related factors as determinants of FDI. Hence, the inability of some developing economies, particularly African countries to entice substantial FDI inflow has been linked to the hostile investment climate arising from political risk and weak institutional environment (Cleeve, 2012). This is essentially related to the disposition of foreign investors in giving adequate consideration to the institutional framework of the host countries where their investments are located (Gani & Al-Abri, 2013). Accordingly, the connection of institutional factors and FDI inflow has been receiving considerable attention of scholars in recent times (Kurul & Yalta, 2017).

Although, there are several studies carried out on the determinants of FDI, however, empirical studies in respect of the link between institutional factors and FDI are relatively scanty. Tun, Azman-Saini & Law (2012) argued that most of these previous investigations on FDI determinants concentrated on the relationship of main traditional macroeconomic variables and FDI inflow. For instance, studies by Asiedu (2006), Mohamed and Sidiropoulos (2010) and Vijayakumar, Sridharan and Rao (2010) have focused on the impact of GDP on FDI, while authors like Cleeve (2008), Botrić and Škuflić (2006) and Mhlanga, Blalock and Christy (2010) examined the relationship of trade openness and FDI. On their part, Upadhyaya, Bhandari and Rainish (2011), Oyelami and Yinusa (2014) and Al-Abri and Baghestani (2015) concentrated on the link of exchange rate with FDI, while some scholars such as Parajuli (2010), Oladipo (2010), Hussain and Kimuli (2012) and Leitao (2012) dwelt on the effect of inflation as well as market size on FDI. As such, less attention has been accorded to the impact of key institutional environment variables such as political stability on FDI. Hence, the focus of this paper in that area is an attempt to bridge this gap.

Furthermore, there is the need to focus on providing avenues for generating additional insights on the dynamics of FDI inflow, which has over the years eluded some developing regions such as SSA. In that regard, a careful review of the recent empirical investigations in respect of the influence of political stability on FDI inflow will provide additional support for strengthening the growth path of developing economies. Particularly, as it will assist the policy makers, scholars and other key stakeholders with the required insight on appropriate and desirable measures requiring attention to facilitate the inflow of FDI to support economic growth and poverty alleviation.

The objective of this study is to complement previous literature reviews on conventional determinants of FDI by focusing specifically on conceptual review of recent empirical studies on the relationship of political stability, components of political instability and FDI from 2000 to 2018 as well as provide other directions for future research. This paper varies from the existing literature surveys which have concentrated on the relationship of economic growth and FDI (Ozturk, 2007; Wan, 2010; Almfraji & Almsafir, 2014). Besides, none of these aforementioned studies focused on political stability-FDI nexus. The motivation for this paper arises from the increasing literature in respect of the association of political stability with FDI as a result of the growing significance of institutional factors as vital drivers of FDI inflow. Moreover, this paper focus mainly on the recent empirical investigations of political stability and FDI inflow in developing economies covering the specific period.

The rest of the paper is outlined as follows; Section 2 provides the background to the literature review; Section 3 focuses on critical conceptual review of recent empirical studies on political stability and FDI, whereas Section 4 and Section 5 cover reviews of political risk and FDI as well as terrorism and FDI respectively. Section 6 finally provides the conclusion of the study as well as suggestions for future research.

Background to the Review

According to World Bank (1996), political stability relates to the prospect of the stability of government as well as lack of politically motivated violence and terrorism. It is a situation where members of the society largely restrict themselves to behavioral conduct regarded as being within the confine of usual political role. The absence of such normal political atmosphere, which threatens the stability of government is regarded as political instability. Conflicts between political actors could resort to violence and instability in the political system. Terrorism as a dimension of political instability is an act of violence perpetrated to create fears in the society and obstruct normal activities of life in order to achieve political as well as economic benefits (Enders, Sachsida, & Sandler, 2006). Terrorists' activities have in recent times become prevalent with its resultant effects on investment and economic activities.

FDI inflow require conducive and investment friendly environment to thrive in the host country (Gani & Al-Abri, 2013). Lack of political stability tends to create apprehension and uncertainty which raises apparent investment risk. Such risk without a corresponding potential growth in the anticipated return from the investment is likely to discourage foreign investment in the country. Political instability also impairs economic growth by necessitating the diversion of resources from economic activities that would propel growth to other areas related to security enhancement activities. Thus, theoretically, political instability undermines FDI inflow as well as economic growth.

The attempts by scholars to explain FDI inflow to host countries involves both micro and macro perspectives. The explanations from micro perspective focus mainly on the individual firms and the motivations behind their expansion into markets overseas through joint ventures and setting up fully owned subsidiaries instead of exporting or licensing. For instance, among the pioneering works in this regard is the study of Aharoni (1966) and Basi (1966). The exploits of Aharoni on USA MNCs' direct investment in foreign market examined firm-specific features in details with regards to such type of investment. The work of Basi (1966) employed questionnaire to investigate the factors affecting decision for initial investment in foreign countries by MNCs in USA. The scholar found that political stability is a significant determinant of FDI. Several other empirical studies involving micro level analysis have been undertaken afterward (Caves, 1974; Grubaugh, 1987).

The approach from macro perspective focuses essentially on variables at country level such as using differentials in interest rate, inflation rate or changes in exchange rate to offer explanation on national FDI inflow by providing insight on why foreign investors prefer a country over the other (Green & Cunningham, 1975; Lipsey, 1999; Culem, 1988). Both the micro and macro perspectives are relevant, since the two approaches complement each other in explaining and enhancing understanding of the dynamics of FDI. Indeed, Dunning's (1977) FDI eclectic paradigm incorporated the two dimensions, by looking at firm specific advantages such as possession of proprietary technology, managerial skills or brand name which enable the firm to be more competitive, thereby exploiting the market through internalizing these advantages in the firm's hierarchy when it expands overseas, and location specific advantages which attract FDI to a particular country instead of the other.

The focus of this paper is the review of empirical works between 2000 and 2018 involving both micro and macro approach on the relationship of political stability as well as the components of political instability and FDI. As such, the review is categorized into three parts; political stability and FDI, political risk and FDI as well as terrorism and FDI.

Political Stability and FDI

The empirical examination of the relationship linking political stability with FDI is traced to the pioneering work of Basi (1966) who established the role of political stability in attracting FDI inflow. Subsequent studies have generated contradictory results in different context using various approaches. Despite the considerable number of studies administered on this relationship, there is obvious disagreement among the scholars on the existence as well as the direction of the link between political stability and FDI. Though, selected studies such as Lee, Biglaiser and Staats (2014), Abala (2014), Rauf, Mehmood, Rauf and Mehmood (2016), Burger, Ianchovichina and Rijkers (2015), Cleeve (2012), Hoa and Lin (2016), Hayakawa, Kimura and Lee (2013), Mijiyawa (2015), Ezeoha and Ugwu (2015), Al-Khouri (2015), Ajide and Raheem (2016), Morrissey and Udomkerdmongkol (2012), Anyanwu and Yaméogo (2015), Shahzad and Al-Swidi (2013), Bannaga, Gangi, Abdrazak and Al-Fakhry (2013), Ferreira and Ferreira (2016), Rashid, Looi and Wong (2017), Sagarik (2015), Ullah and Khan (2017), Bandelj (2002), Globerman and Shapiro (2002), Salako and Adebusuyi (2001), Ramirez (2002), Feng (2001), Asiedu (2006), Buchanan, Le and Rishi (2012), Naudé and Krugell (2007), Fedderke and Romm (2006), Anghel (2005), Samimi, Moghaddasi and

Aziz (2011), Adeoye (2009), Wernick, Haar and Singh (2009) and Kim (2010) argued that political stability encourage FDI inflow in numerous countries.

Another group, for instance, Holmes, et al. (2013), Lucke and Eichler (2016), Yang et al. (2018), Luiz and Ruplal (2013), Driffield, Jones and Crotty (2013) and De Beule and Duanmu (2012) suggested that political stability deters FDI inflow in various nations. In another submission, the third group of scholars for example, Gani and Al-Abri (2013), Okafor (2015), Jadhav (2012), Różański and Sekuła (2016), Saidi, Ochi and Ghadri (2013), Kurul and Yalta (2017), Pradhan (2017), Akhtar (2000), Daude and Stein (2007) and Hur, Parinduri and Riyanto (2011) asserted that there is no significant relationship between political stability and FDI in several contexts. This last category of scholars is the neutral group.

The absence of broad consensus regarding the relationship could be associated with diverse measure of political stability used by different studies for various countries, since different measures could exert varying impacts on FDI inflow of a nation. In a similar pattern, scholars have employed various methodologies in their analysis which could vary the outcomes. Though, some few scholars applied time series approach in the analysis such as Rauf, Mehmood, Rauf and Mehmood (2016), Abala (2014), Shahzad and Al-Swidi (2013), Salako and Adebusuyi (2001), Akhtar (2000), Remirez (2002) and Fedderke and Romm (2006) to examine the link between political stability and FDI, other numerous empirical works which include Daude and Stein (2007), De Beule and Duanmu (2012), Holmes, et al. (2013), Lucke and Eichler (2016), Yang et al. (2018), Luiz and Ruplal (2013), Hur, Parinduri and Riyanto (2011), Driffield, Jones and Crotty (2013) Gani and Al-Abri (2013), Okafor (2015), Jadhav (2012), , Saidi, Ochi and Ghadri (2013), Kurul and Yalta (2017), Pradhan (2017), and Różański and Sekuła (2016), Anghel (2005), Cleeve (2012), Lee, Biglaiser and Staats (2014), Mijiyawa (2015), Burger, Ianchovichina and Rijkers (2015), Adeoye (2009), Hoa and Lin (2016), Hayakawa, Kimura and Lee (2013), Al-Khouri (2015), Ezeoha and Ugwu (2015), Kim (2010), Ajide and Raheem (2016), Morrissey and Udomkerdmongkol (2012), Rashid, Looi and Wong (2017), Anyanwu and Yaméogo (2015), Bannaga et al. (2013), Bandelj (2002), Sagarik (2015), Globerman and Shapiro (2002), Asiedu (2006), Buchanan, Le and Rishi (2012), Feng (2001), Naudé and Krugell (2007), Samimi, Moghaddasi and Aziz (2011), Wernick, Haar and Singh (2009) and Ullah and Khan (2017) deployed panel data technique to explore the influence of political stability on FDI.

Within the framework of time series analysis, varying methodologies were utilized to investigate political stability-FDI relations, estimation. The work of Rauf et al. (2016), Salako and Adebusuyi (2001), Ramirez (2002) and Akhtar (2000) are examples of studies that employed Ordinary Least Squares (OLS) in their analysis of the connection of political stability with FDI, while Shahzad and Al-Swidi (2013) utilized hierarchical regression, Abala

(2014) and Fedderke and Romm (2006) used Two-Stage Least Square (2SLS) and Vector Error Correction Model (VECM) respectively.

Taking the investigation of Ramirez (2002), OLS was employed to examine the main determinants of FDI inflow to Mexico as well as the institutional and economic channels by which the flow of FDI has impacted key economic variables and the various sectors of the country's economy. The researcher finds that political stability, real exchange rate and market size influenced FDI inflow to Mexico significantly between 1956 and 1996. Similarly, the study by Rauf et al. (2016) deployed OLS technique to scrutinize the effect of political stability as well as other economic factors on inflow of FDI in Pakistan spanning the period 1970 to 2013 to report that political stability, GDP and trade openness stimulates FDI inflow in the country.

Responding to the growing concern on the role of FDI in South African economy, Fedderke and Romm (2006) employed VECM to investigate the determinants of FDI and its growth impact in South Africa. The result show that FDI in the country is largely capital intensive as well as horizontal and political stability, property rights and market size stimulate FDI inflow to the country. The work of Shahzad and Al-Swidi (2013) employed hierarchical regression on the datasets of Pakistan from 1991 to 2011 to interrogate the moderating influence of political stability with regards to connection between macroeconomic factors and FDI. They validated the significance of political stability as a crucial element of FDI inflow and expansion of domestic investment in Pakistan. In another study, Abala (2014) explored the factors that basically drives FDI inflow and growth of real GDP in Kenya using 2SLS estimation technique with annual data of the country covering the period 1970 – 2010. The author reported that political stability matters for FDI in Kenya and insecurity impedes FDI inflow in that country. The period of 41 years examined by the study is sufficient for time series analysis, though the study was unable to look into the inflow of FDI to various sectors of the economy in Kenya.

On their part, Salako and Adebusuyi (2001) used OLS estimation process to explore the role of macroeconomic variables and political environment on inflow of FDI in Nigeria. They asserted that while political stability has no significant relationship with FDI from 1970 to 1998, government domestic investment, exchange rate and credit facilities to private sector raised the confidence of investors and FDI inflow, thereby affirming the relevance of macroeconomic framework to business environment in the country. In the same vein, the study of the determinants of FDI in Pakistan by Akhtar (2000) using OLS analysis spanning the period 1972 – 1996 confirm an insignificant link between political stability, market growth and FDI.

Since most of the research work on the link of political stability with FDI employed panel data approach, they are grouped into three: studies that used OLS technique, Generalized Method of Moments (GMM) dynamic model and other econometric models. Lee, Biglaiser and Staats (2014), Cleeve (2012), Burger, Ianchovichina and Rijkers (2015), Holmes et al. (2013), Hoa and Lin (2016), Jadhav (2012), Gani and Al-Abri (2013), Saidi, Ochi and Ghadri (2013), Hur, Parinduri and Riyanto (2011), Okafor (2015), Różański and Sekuła (2016), Wernick, Haar and Singh (2009), Sagarik (2015), Bandelj (2002), Rashid, Looi and Wong (2017), Feng (2001), Buchanan, Le and Rishi (2012), Daude and Stein (2007), Anghel (2005) Asiedu (2006), Globerman and Shapiro (2002), Kim (2010) and Samimi , Moghaddasi and Aziz (2011) are examples of researches that employed OLS technique to examine the political stability-FDI nexus.

Rashid, Looi and Wong (2017) questioned the effect of political stability along with some key macroeconomic variables on FDI using Fixed Effect Model (FEM) with 14 years dataset of 15 top Asia Pacific countries considered as most competitive economies in the region. The research concluded that political stability, trade openness and GDP exhibit positive significant influence on FDI inflow to the selected economies in the long run with political stability having the most impact, while inflation exert negative influence. The result implies that the Asia Pacific countries need to promote the stability of their institutional as well as macroeconomic environment. The findings from the study is however limited to the 15 Asia Pacific countries and cannot be generalized for other countries in the region.

Considering the obvious variation in the characteristics of different countries and regions, Bandelj (2002) deployed a rational approach to examine the political, institutional, cultural and economic link between host countries and investors. Using FEM and dyads of host-investor as unit of account in a study of 11 transition economies in East and Central Europe during the period 1995 – 1997, the author submitted that while the impact of FDI policies is surprisingly not significant from the outcome of the model analysis, political stability appears to be the most influential host country feature on FDI in the 11 selected transition economies. Cultural as well as political ties are also relevant in shaping inflow of FDI in the countries.
Also, Sagarik (2015) explored FDI determinants in the Association of South East Asian Nations (ASEAN) by focusing on political stability and macroeconomic policies involving labor cost, financial development, openness of the economy, infrastructure development, inflation rate and market size. The OLS analysis of the 10 ASEAN economies with datasets of 2002 to 2012 illustrates that political stability, openness of the economy and market size have exerted the most significant influence on the remarkable FDI inflow recorded by the countries during the period cover by the study. The researcher argued that political stability also facilitates the stability of the macroeconomic factors as well as high GDP growth, implying that political stability is not only relevant for FDI, but also stability of the macroeconomic environment of the ASEAN economies.

In contrast, the study of Daude and Stein (2007) investigated bilateral FDI stocks across the world by exploring the significance of wide range of institutional related factors as locational determinants of FDI from 34 source countries to 152 host countries spanning the period 1982 – 2002. The outcome of the analysis from OLS estimation indicate that political violence has insignificant effect on FDI inflow, whereas regulatory quality, government efficiency encourage inflow of FDI.

Cleeve (2012) in a study of institutional variables and FDI in Africa used a more comprehensive framework to explore the effect of political stability as well as other institutional variables on the inflow of FDI in 40 SSA economies from 1988 to 2008. The author employed OLS as well as Generalized Least Squares (GLS) models on political stability and 11 other selected variables. After controlling for traditional and policy variables, the researcher concluded that political stability is actually significant for attracting FDI inflow to the SSA countries. However, the study by Cleeve (2012) failed to consider heterogeneity of the different sub regions of the African continent.

On their part, the investigation of Hoa and Lin (2016) on Indochina economies (Laos, Cambodia & Vietnam CLV) between 1996 and 2012 used OLS and Random Effects Model (REM). The study concluded that political stability encourages FDI inflow. Though the study is confined to the Indochina economies, it failed to consider the impact of political stability on different types of FDI as well as use dynamic model to address the dynamic nature of FDI inflow. Nonetheless, the result has confirmed the significance of stable political as well as economic environment for enticing FDI. Furthermore, FEM was applied by Burger, Ianchovichina and Rijkers (2015) in their investigation of the link of political instability with greenfield investment in the Middle East and North African (MENA) countries covering the period 2003 – 2012. The study interestingly reported that political instability deter inflow of FDI to the non-resource tradable manufacturing as well as commercial services, and not natural resources and non-tradables. Although, the study specifically focused on MENA countries, the outcome is not surprising since FDI in MENA region is predominantly resource seeking greenfield FDI. However, these findings may not necessarily be applicable to other developing countries.

In another twist, Gani and Al-Abri (2013) who employed FEM to study the relationship of business environment and FDI inflow in United Arab Emirates, Saudi Arabia, Oman and Kuwait between 2003 and 2010 as well as Okafor (2015) who also utilized FEM to investigate the locational factors driving FDI from United States to 23 selected SSA countries from 1996 to 2010, concluded that the impact of political stability on FDI inflow is insignificance. Although, both studies did not use dynamic model and were also unable to extend their analysis to sectoral FDI, the investigations have revealed that FDI inflow to the four Arab countries and USA outward FDI to the SSA countries are not driven by efficient seeking motive, but resource and market seeking as well as strategic consideration.

In examining whether political institutions affect FDI in less developed countries (LDCs), Feng (2001) scrutinized the relationship of political instability, democracy and private investment in 40 LDCs covering 1978 – 1988 with OLS technique. The researcher argued that political instability undermines FDI flow and its negative consequence on private domestic and foreign investment exceed by far the disagreeable impact of either fiscal or monetary policies on both foreign and domestic private investment. The author insisted that political environment matters for private capital formation. As such, LDCs should strengthen their political institutions and ensure policy consistency to entice FDI.

In a study of the role of political instability, institutions, government policy, market size and natural resources, Asiedu (2006) focused the FEM analysis on the economies of the 22 SSA countries over the period of 1984 to 2000. The study also considers the significance of market size vis-a-viz policy of government as well as institutions of the host country in directing the flow of FDI. the key outcome of the investigation is that political stability, large markets and natural resources encourage FDI, Similarly, the researcher asserted that good infrastructure, openness of the economy to FDI, reliable legal system, corruption control and low inflation rate exhibit similar impact. This verdict points to the fact that FDI is not only driven by exogenous factors in SSA, improvement in institutional framework and regional economic cooperation could stimulate inflow of FDI in the region as well.

Arising from the widely held view that the performance of a country’s economy over time is to a large extent determined by its political, legal and institutional environment, Globerman and Shapiro (2002) deployed an unconventional approach by investigating the impact of country’s governance infrastructure on inflow as well as outflow of FDI with OLS technique for wide sample of 115 developing and transition economies spanning the period 1995 – 1997. The researcher documented that political stability and other set of governance indices are significant determinants of both inflow and outflow of FDI. Therefore, political governance is necessary for promoting effective regulation, transparent legal system and efficient service delivery which encourage FDI.

In exploring whether institutions influence FDI inflow, Anghel (2005) deployed empirical analysis using OLS method of estimation to examine the role of political stability along with other institutional indexes in FDI inflow for 77 sample countries. The outcome of the OLS analysis in respect of the regression model revealed that political stability, regulations, corruption control, government effectiveness and property rights protection have positive significant impact on inflow of FDI from 1996 to 2000 irrespective of control variables included in the model. However, the study failed to consider other important potential determinants of FDI such as incentives or restriction for capital flows, rate of return and domestic labor costs. Nonetheless, the study has provided additional insights on institutional quality-FDI nexus.

On the contrary, in a remarkable study of the connection of political stability with FDI, Kim (2010) tested two hypotheses. The first hypothesis is that inflow of FDI to countries with political instability are high, while outflows of FDI are high for countries with political stability after macroeconomic factors are inherently controlled. The second is that the performance of inward FDI is high for countries experiencing political instability, after the control of macroeconomic factors. The researcher employed OLS estimation technique on a dataset of 28 countries from 1990 to 2002 to ratify these hypotheses. Though, the author also employed feasible GLS as well as REM technique to reaffirm the result of OLS estimation, the findings are restricted to the countries included in the study and cannot be generalized.

Buchanan, Le and Rishi (2012) empirically explored the nexus of institutional quality and the level of FDI inflow as well as its volatility in 164 countries across the world using OLS model. The finding from the investigation indicate that political stability with other institutional variables are critical for stimulating inflow of FDI and inversely related with volatility of FDI during the period 1996 – 2006. The implication is that efforts by developing economies to attract FDI inflow should focus on ensuring not only stable macroeconomic environment, but institutional framework as well.

Deploying panel econometric approach, Samimi, Moghaddasi and Aziz (2011) delved into the study of political stability and FDI in 16 economies of Organization of Islamic Countries (OIC). The study which incorporated some macroeconomic variables in the regression analysis with FEM technique concluded that political stability influence FDI inflow in OIC between 2002 and 2009, asserting that population, trade openness and GDP also matters for inflow of FDI in the economies during the period. In addition, Wernick, Haar and Singh (2009) interrogated the data of 64 emerging economies. The aim was to determine whether strong institution of governance as well as business friendly related policies facilitates inflow of FDI from 1996 to 2006 by considering political stability as well as five other institutional factors with OLS technique. They submitted that political stability and other institutional factors have positive significant link with FDI. This implies that institutional quality remains key for enticing FDI inflow. As such, emerging economies desirous of improving their attraction to foreign investors need to undertake far reaching institutional reforms to improve their business environment.

Nevertheless, the investigation by Hur, Parinduri and Aziz (2011) which focus on the M&A component of FDI in developing countries in comparison with developed economies employed OLS and FEM on data of 165 countries across all the regions and continents. They considered political stability as well as other institutional factors and incorporated trade openness, financial development, technological advancement and size of the economy as control variables. The findings from the empirical analysis revealed that political stability and other institutional variables matters, but the impact of institutional reforms on inflow of cross-border M&A is small in developing economies compared to developed countries. This means that even with the current drive for institutional reforms by some developing economies, the gap may likely persist.

Among the studies that used GMM dynamic model to interrogate the influence of political stability on FDI are Naudé and Krugell (2007), Morrissey and Udomkerdmongkol (2012), Al-Khouri (2015), Hayakawa, Kimura and Lee (2013),Ullah and Khan (2017), Anyanwu and Yaméogo (2015), Lucke and Eichler (2016), Mijiyawa (2015), Ajide and Raheem (2016), Kurul and Yalta (2017), Ezeoha and Ugwu (2015) and Yang, Wang, Wang and Yeh (2018).
For instance, Anyanwu and Yaméogo (2015) conducted an empirical investigation on the African region by providing sub-regional comparison in respect of the inflow of FDI to Africa spanning the period 1970 – 2010. Their aim was basically to analyze the factors driving FDI inflow to the 53 African countries by mainly focusing on the heterogeneity of the five sub regions in Africa. They utilized GMM model on the datasets of the countries grouped into East, North, West, Central, and Southern Africa. The results of the study indicate that political instability deter FDI inflow in Africa, and the hindrance is more severe in West Africa. The work of Anyanwu and Yaméogo (2015) has addressed the limitations of other studies that failed to reflect heterogeneity by considering the five sub regions of Africa using a dynamic model. Nonetheless, the nature of the multi-ethnic configuration in most African countries call for concerted efforts by governments of these countries to institutionalize inter-ethnic tolerance in order to curtail internal conflicts and engender political stability to stimulate FDI inflow in the region.

In another study, Morrissey and Udomkerdmongkol (2012) applied GMM technique to explore the link between institutional variables, private investment and FDI in 46 sampled developing economies during the period 1995 – 2009. The scholars documented from their analysis, that indeed political stability exert positive influence on inflow of FDI significantly. Similarly, Hayakawa, Kimura and Lee (2013) in their empirical exploration examined the effect of several aspects of political risk and financial risk on inflow of FDI as well as their variations over time. Having employed datasets of 89 selected developing countries between 1985 and 2007 in the estimation, the outcome of the system GMM analysis confirms that political stability facilitates FDI inflow and a decline in political risk and rate of conflicts from the initial level have the ability of boosting FDI inflow. Although, both studies encompass large number of sampled countries, they did not consider differences among the countries arising from the level of economic development, cultural heritage and resource endowment.

In investigating the role of economic and institutional factors on FDI, Ullah and Khan (2017) dwell on the economies of three regions in Asia: ASEAN, Central Asia and South Asia Association for Regional Cooperation (SAARC). They utilized GMM model and controlled labor force, domestic investment and market size in the analysis with dataset of the three regional groups from 2002 to 2014. They concluded on two broad findings that political stability and other institutional factors demonstrate positive influence on FDI inflow in ASEAN region as well as Central Asia, whereas they show inverse relationship in SAARC. However, economic freedom and domestic investment have positive link with FDI in ASEAN and SAARC regions, while domestic investment and real GDP exhibit similar impact in Central Asia. The variations in the findings could be attributed to the heterogeneous outlook of the Asian continents and its regions.

The work of Al-Khouri (2015) focused on the factors influencing inflow of FDI as well as foreign portfolio investment flow between the 16 economies in MENA region from 1984 to 2012 using GMM model, while Ajide and Raheem (2016) employed system GMM technique to investigate the role of institutions on FDI inflow in Economic Community of West African States (ECOWAS) during the period 2000 – 2013. The two studies successfully documented that stability of the political system is positively related to FDI inflow and internal conflict deter foreign investors in the respective regions covered in their studies. Though, both studies used dynamic model, Al-Khouri's study is restricted to FDI inflow among the MENA countries, while Ajide and Raheem's work failed to consider inflow to the various sectors such as manufacturing, services and extractive industries.

In addition, Ezeoha and Ugwu (2015) deployed system GMM technique to explore the interactive effect of political stability and armed conflict on inflow of FDI in 41 selected African countries during the period of 15 years between 1997 and 2012, whereas Mijiyawa (2015) utilized same system GMM model to investigate the link of political stability with FDI inflow in 53 African countries spanning the period 1970 – 2009. The verdicts were the same, affirming the positive impact of stable political environment on FDI inflow in Africa. However, both studies failed to provide additional insight on the relationship of political stability with various components of FDI such as Greenfield investment as well as mergers and acquisitions. Such exploits would have enhanced the understanding of the dynamics of FDI inflow in African countries with fragile institutional framework.

In a related study, Naudé and Krugell (2007) applied GMM dynamic technique to explore the FDI determinants in Africa by focusing on institutions and geography using data of 43 African countries over the period 1970 – 1990. From the outcome of dynamic analysis, political stability, inflation rate, rule of law, government consumption, initial literacy and regulatory burden were found to be statistically significant, whereas all the geography variables included in the model appear insignificant. Thus, African countries needs to intensify efforts at institutional reforms to create conducive environment for influencing inflow of FDI.

Contrastingly, studies by Lucke and Eichler (2016) used system GMM model in scrutinizing the role of institutional as well as cultural factors on bilateral FDI between 65 host countries and 29 source countries across developing and developed economies over the period 1995 – 2009 to report that foreign investors have the preference of investing in developed economies that are more unstable politically in comparison with their home country. Equally, the recent study by Yang et al. (2018) which focused on reinvestigating the relationship of institutional quality in host country and Chinese outward FDI into 132 selected countries between 2003 and 2012 utilized system GMM technique in their analysis to conclude that political stability is negatively associated with China's outward FDI. Though, both studies did not disaggregate FDI inflow into the various sectors of the host countries such as manufacturing, services and extractive industries, the outcome of the study of Yang et al. supports the notion that most of the Chinese outward FDI are essentially market and resource seeking, which are less sensitive to weak institutional environment.

Another recent study by Kurul and Yalta (2017) which revisited the connection between various institutional variables and FDI inflow, applied system GMM model on panel data analysis of 113 developing economies spanning the period of 11 years from 2002 to 2012. The scholars submitted that political stability failed to exert any significant bearing on FDI inflow in the selected countries covered by their investigation. However, the study did not give due consideration to perceived differences amongst the sampled countries in relations to socio-cultural orientations, level of income and regional heterogeneity.

On their part, Ferreira and Ferreira (2016), Luiz and Ruplal (2013), Adeoye (2009), De Beule & Duanmu (2012), Driffield, Jones and Crotty (2013), Bannaga et al (2013) and Pradhan (2017) utilized various estimation techniques to verify the role of political stability in FDI to various countries. For example, in testing the relationship of governance institutions with FDI inflow, Adeoye (2009) deployed GLS regression technique in the empirical analysis of the data of 33 emerging markets from 1997 to 2002. Having included some macroeconomic variables that may have potential effect on FDI as control variables, the author concluded that while all the control variables in the model, GDP per capita, literacy rate, trade openness, household consumption and inflation rate proved to be insignificant, political stability, rule of law, corruption control and effectiveness of government have demonstrated positive impact on FDI in the emerging economies.

In addition, a recent study by Ferreira and Ferreira (2016) focused on the effect of political stability and five other selected institutional variables on FDI inflow. The researchers employed Tobit model in their analysis with dataset of 48 SSA countries to submit that political stability enhance the ability of the SSA countries to attract inflow of FDI. However, the study used single period data of the institutional variables for 2010 and data of FDI for 2011, thereby overlooking the dynamic nature of the FDI inflow over time in a complex economic environment such as SSA. Nevertheless, the outcome of the study implies that, apart from macroeconomic stability, the region also needs stable political outlook as well as institutional credibility to attract FDI.

In contrast, Luiz and Ruplal (2013) used survey technique to investigate the factors affecting the decision of MNCs in South Africa to invest in Africa and they found that political instability is one of the key factors encouraging the firms to invest in Africa. Though, the result seems interesting, it cannot be generalized since the study focused on South Africa whose MNCs are mostly resource seeking and also familiar with volatile political atmosphere as well as weak institutions in their environment. In a similar scenario, De Beule and Duanmu (2012) examined the locational determining factors of FDI outflow from MNCs in China and India to other host countries. They used Conditional Logit model to analyze datasets of Chinese as well as Indian FDI acquisition in different sectors. The scholars reported an intriguing result indicating that political instability is a significant factor motivating Chinese and Indian firms to invest in an unstable political environment endowed with rich resources. Despite the fact that the investigation was confined to outward FDI of MNCs in China and India, the outcome of the study lend credence to the belief that the mining industry is driven by resource seeking and strategic motives rather than efficiency seeking motive.

Political Risk and FDI

Some studies have focused their investigations on the political risk associated with political instability and how it affects investment decisions and activities of MNCs. Apart from, risks associated with unstable political system, issues such as intervention of government on tax burden, profit remittance, expropriation, technology transfers and other restrictive policies are regarded as part of political risk (Makhija, 1993). It could also be related to other non-economic factors involving policies of government, behavior of religious groups, protests, strikes and war (Woodward & Rolfe, 1993).

Subsequent studies have generated contradictory results in different context using various approaches. Despite the considerable number of studies administered on this relationship, there is obvious disagreement among the scholars on the existence as well as the direction of the link between political stability and FDI

Several studies conducted on the influence of political risk on FDI inflow using different empirical methods in various countries have also produced varying outcomes, indicating that there is no consensus among scholars on the nature of the relationship. Studies of Harms (2002), Busse and Hefeker (2007), Gobinder and Haider (2014), Dauti (2015), Júlio, Pinheiro-Alves and Tavares (2013), Estrin and Uvalic (2014), Amighini, Rabelloti and Sanfilippo (2013), Chan and Gemayel (2004), Sethi, Guisinger, Ford Jr., and Phelan (2002), Duanmu and Guney (2009) and Desbordes (2010) have concluded that political risk undermines FDI inflow, whereas Khan and Akbar (2013), Thomas and Grosse (2001), Quer, Claver and Reinda (2011), Ramasany, Yeung and Laforet (2010) and Al-Khouri and Khalik (2013) have reported that political risk facilitates inflow of FDI. On their part, Asiedu (2002), Rogmans and Ebbers (2013), Bevan and Estrin (2004), Kariuki (2015) and Kolstad and Villanger (2008) submitted that the relationship of political risk with FDI inflow is insignificant.

In terms of methodological approach, virtually all the studies reviewed in this paper on political risk and FDI utilized panel data analysis in their investigations. Taking the work of Harms (2002) who in a comparative study using panel analysis investigated the response of FDI and portfolio investment inflow to political risk in 55 low income and middle-income economies. In conducting the analysis with FEM covering 1987 to 1995, the authors treated trade openness, infrastructure quality and inflation which are considered potential FDI determinants as control variables. The finding is that political risk affects both FDI and portfolio investment in all the sampled low income and middle-income economies. Further analysis on the two income groups provided further insights indicating that the effect of political risk is more pronounced in the middle-income countries that the low-income countries.

In a related study, Khan and Akbar (2013) deployed both FEM as well as REM to explore the role of political risk on FDI inflow by using datasets of 94 selected countries cutting across the various regions of the world spanning 24 years period from 1986 to 2009. The study affirmed the negative influence of political risk and government instability on the inflow of FDI in all the countries cover by the study. They also submitted that the consequence is even more apparent in the upper-middle income countries. Though, the study encompasses relatively large number of countries and considered their income classification, it was unable to consider regional peculiarities to take care of the issue of heterogeneity across the regions.
Gobinda and Haider (2014) documented that political risk arising from ethnic tension and internal conflicts discourage FDI inflow in their investigation of political risk and FDI in 146 developing economies during the period 1984 – 2009. The study employed OLS as well as FEM in the analysis and included a sizeable number of developing economies over the period of 26 years, but failed to consider income classification as well as regional heterogeneity among the countries. Furthermore, Rogmans and Ebbers (2013) explored the main factors

determining FDI inflow with OLS regression technique on dataset of 16 MENA countries during the period of 1987 to 2008 and reported that political and environmental risks have positive relationship with FDI inflow. This could be particularly so, since the extractive industry whose investment is inherently driven by resource seeking motive is the dominants recipient of FDI inflow in MENA region.
In another scenario, Sethi, Guisinger, Ford Jr. and Phelan (2002) explored the FDI inflow changing trend in response to strategic as well as institutional factors in 18 Asia and Western Europe during the period of 20 years from 1981 to 2000. The researchers deployed OLS regression to test the hypothesis of a generic model which integrates strategic and institutional factors. One of the major findings centered on the sensitivity of USA MNCs to political risk and uncertainty of the host country affecting the shifting trend of their FDI flow from Western Europe developed economies to developing markets of Asia.

On their part, Duanmu and Guney (2009) attempted to provide an answer to the quest for understanding the locational determinants in respect of FDI from India and China. Their OLS and FEM analysis of the unbalanced panel framework focused on the 30-top destination of outward investment from the two economies. They concluded that investment from China is attracted by low political risk, as well as sound institution, currency depreciation, status of English speaking and open economic process in the host countries, but none of these attributes have significant effect on investment from India. This implies that the factors attracting investment from the two countries actually vary.

However, in a more specific study, Kolstad and Villanger (2008) tested FDI inflow in the services industry. In an elaborate study involving 57 countries across different level of economic development, they employed OLS and FEM to examine FDI inflow to specific aspect of the services sector which include transport, business activities, trade and financial services. The authors reported an interesting finding indicating that the impact of political risk is insignificant to aggregate FDI of the services sector. This means that FDI inflow to the service sector is inherently market driven and therefore insensitive to trade openness and political risk associated with host countries.

Chan and Gemayel (2004) explored the nexus of political risk, economic and financial risks with FDI in a panel of 19 MENA economies and 14 EU members. After rigorous empirical analysis with the datasets of the selected countries covering 1980 – 1999 using REM estimation technique, they affirmed that political risk inhibits FDI inflow and the impact of political risk is even more critical for the MENA economies than the developing economies of EU. This means that MENA countries as well as EU developing economies need to make conscious efforts to lower political and economic risks to make their business environment more attractive for investment.

On the other hand, in finding an answer to the question of whether factors that determines FDI in Africa are different from those of other developing economies, Asiedu (2002) tested several economic and institutional variables including political risk in an elaborate empirical framework. The researcher employed OLS method analysis on a panel of 71 developing economies comprising 32 SSA and 39 non SSA countries over the period 1988 to 1997 and concluded that political risk is not a significant factor affecting FDI inflow to SSA countries. However, infrastructure, return on capital and trade openness are significant for SSA as well as non SSA countries, but have greater influence in non SSA economies. This shows that FDI to the African region could be driven by resource or market seeking motives.

In addition, Bevan and Estrin (2004) concentrated their investigative efforts on bilateral FDI flow mainly from EU members to Eastern as well as Central European economies. Using REM regression analysis on a panel of 14 EU economies and 10 transition economies of Europe, the outcome of the study interestingly revealed that host country political risk has no significant influence on bilateral FDI flow among the countries between 1994 and 2000. However, the study shows that gravity factors, labor costs, proximity and market size determine the flow of bilateral FDI between the countries.

Busse and Hefeker (2007) explored the connection between political risk, some institutional variables and inflow of FDI in a panel of 83 developing economies spanning the period 1984 – 2003. Having included some variables such as economic growth, trade openness, inflation and per capita income as control variables in an empirical analysis using both FEM and GMM models, the result confirms that political risk in the host economy undermines FDI flow in the sampled countries. However, Law and order, stability of government, democratic accountability and investment profile determines FDI during the period.

Contrastingly, in a study of Chinese MNCs' investment abroad, Quer, Claver and Rienda (2011) used conditional Logit model on FDI flow from 29 big firms in China to 52 sampled host countries to investigate the influence of cultural distance as well as political risk on investment location decision of Chinese firms. They found that political risk in the host country has no link with location decision by firms from China between 2002 and 2009. Likewise, cultural distance does not appear to exhibit serious adverse impact on such location decision. Also, investigation conducted by Ramasany, Yeung and Laforet (2010) on Chinese public listed firms produced a similar verdict. In undertaking the study, they separated the firms controlled by the state from the private firms and used Poisson model in their analysis to conclude that internationalization determinants differ with ownership. While political risk in host country environment encourage firms controlled by the state, private firms appear to be inherently driven by market.

Do foreign investors consider diplomatic as well as global political risks in taking investment decisions? This is the question Desbordes confronted in an empirical exploit involving MNCs from USA and selected developing economies. Using Forward Orthogonal Deviations as well as GMM techniques in the estimation analysis, the findings revealed that both components of political risks, global and diplomatic affects decision of USA firms on foreign investment. The result relating diplomatic risk means that investors' home country could influence the firms' business environment overseas.

From a different dimension, Thomas and Grosse (2001) opted for a dissimilar perspective for exploring the dynamics of FDI by considering the role of socio-political, geographic and economic factors in FDI country of origin on its FDI inflow to Mexico. After considering 11 top countries contributing over 90 percent as well as other economies contributing less to Mexican FDI inflow, they utilized GLS regression technique in the empirical analysis to verify the significance of home country political risk, bilateral trade level, exchange rate, geographic distance and GDP on the inflow of FDI to the Mexican emerging economy from 1980 to 1995. The finding is however confined to the Mexican context as varying outcome could emerge from a different environment.

Terrorism and FDI

Terrorism is involving the application of violence or threat of violent activities by clandestine group to create chaos and obstruct regular activities in order to achieve specific aim (Enders, Sachsida and Sandler, 2006). The actual and perceived consequence of terrorist activities on economy has prompted scholars to precisely investigate terrorism as a dimension of political instability in relation to FDI inflow. For instance, Shah and Faiz (2015), Haider and Anwar (2014), Ali, Qingshi, Ullah and Ali (2017), Talat and Zeshan (2013), Powers and Choi (2012), Rauf, Mehmood, Rauf and Mehmood (2016), Kinyanjui (2014), Shahzad et al. (2016), Bandyopadhyay, Sandler and Younas (2013), Shabaz, Javed, Dar and Sattar (2013), Rasheed and Tahir (2012), Lee (2016), Shah and Faiz (2015), Ullah and Rahman (2014), Abadie and Gardeazabal (2005) and Efobi, Asongu and Beecroft (2015) have all investigated the link of terrorism with FDI between 2000 and 2018.

Apart from Rauf et al. (2016), all the studies reviewed reported the detrimental impact of terrorism and terrorists' activities on FDI inflow in various countries. In terms of empirical approach, Ullah and Rahman (2014), Rasheed and Tahir (2012), Talat and Zeshan (2013), Rauf et al. (2016), Ali, Qingshi, Ullah and Ali (2017), Shabaz, Javed, Dar and Sattar (2013), Kinyanjui (2014), Shahzad et al. (2016) and Haider and Anwar (2014) employed time series analysis, while Shah and Faiz (2015), Efobi, Asongu and Beecroft (2015), Abadie and Gardeazabal (2005), Bandyopadhyay, Sandler and Younas (2013), Powers and Choi (2012) and Lee (2016) used panel analysis in their study of terrorism-FDI connection.

Consequent upon the prevalence of terrorists' activities in Pakistan and the efforts of the country to encourage FDI inflow, Haider and Anwar (2014) explored the role of terrorism-related risks vis-a-viz FDI inflow in the country. Using time series approach and ARMA model in their empirical analysis, the investigation extended to some specific sectors of the economy from 2001 to 2011. The verdict is that terrorism-related violence creates uncertainties and extra costs on business activities which discourage investors and inhibit aggregate FDI inflow. Further analysis revealed that the consequence is prevalent in certain sectors such as financial business, personal services, construction, trade and communications which are mainly in the urban areas. However, FDI inflow to sectors such as petroleum financing, power as well as oil and gas appear to be insensitive to terrorism. Though, this could be due to the high profits associated with such sectors.

In exploring whether terrorism and political instability have devastating impact on FDI in Pakistan, Talat and Zeshan (2013) employed OLS and ARMA models to investigate the cost of fighting terrorism, electricity generation and political instability on FDI in the developing economy of Pakistan. Macroeconomic factors such as inflation rate, incentives to investors, exchange rate and market size were controlled in the model used to analyze time series data from 1980 to 2010. The result confirms that cost of fighting terrorism as well as political instability affects FDI negatively, whereas generation of electricity has direct relation with inflow of FDI in the country and all the control variables have positive link with FDI, except inflation. Similar study by Shahbaz, Javed, Dar and Sattar (2013) examined terrorism-FDI link in Pakistan. They utilized data on terrorism attacks in the country and FDI inflow from 2000 to 2011 with OLS estimation process to conclude their findings. Terrorism undermines FDI inflow and the rise in the number of terrorism related attacks discourage investors from investing in the country. Thus, the country needs to curtail terrorist activities to boost the confidence of investors in the country.

The assessment of terrorism and FDI relations by Kinyanjui (2014) focused on Kenya, while Rauf et al. (2016) concentrated on Pakistan. The former used OLS multiple regression with data of terrorists' attacks and FDI inflow in Kenya between 2010 and 2012 to affirm that terrorism and terrorist attacks have inverse link with FDI inflow in the country. On their part, Rauf et al. (2016) interrogated the impact of terrorism and political stability on FDI inflow in Pakistan between 1970 and 2013. They employed OLS model with time series data in their empirical analysis which has trade openness and GDP as control variables. The result shows that the impact of terrorism on FDI in Pakistan is statistically insignificant, while political stability is significant. However, the result in respect of terrorism could be due to the inclusion of political stability in the model since terrorism is a component of it.
Ali, Qingshi, Ullah and Ali (2017) examined the long run association of terrorism with FDI in developing economy of Pakistan as well. They utilized time series data of Global Terrorism Database and WDI in the OLS regression analysis to report that terrorism retards

FDI inflow in Pakistan and fatalities as well as injuries from terrorism-related attacks tend to dampen investors interest in the country. Similarly, Ullah and Rahman (2014) interrogated the nexus of terrorism and FDI in Pakistan with monthly generated time series data between 1995 and 2013 using multiple regression analysis. The result show that terrorism impedes FDI inflow to Pakistan. Though, other variables that could determine FDI were not included in the model, the result has indicated the need for Pakistan to tackle terrorism in order to encourage investors.

Rasheed and Tahir (2012) have shown that terrorism impedes FDI inflow from a study of terrorism and FDI in Pakistan with OLS regression analysis covering the period 2003 – 2011. The study further revealed that terrorism also affects financial market as well as infrastructure of the country. Furthermore, Shahzad et al. (2016) also documented that terrorism has devastating impact on FDI in Pakistan. They utilized quarterly time series data for 1988 to 2010 in their regression analysis with VECM model. The outcome indicate that terrorism deter FDI and the consequence is more pronounced in the post 9/11 era.

Abadie and Gardeazabal (2005) concluded that terrorism constrains FDI flow and global economy. They employed multiple regression on a unique panel dataset in respect of terrorism and other risk factors for a sample of 110 countries across the globe. They included other forms of country risks in the model as control variable to submit that an increase in terrorists-related risk reduces net FDI position. In addition, Powers and Choi (2012) assessed the effect of specific aspect of terrorism which is transnational terrorism on FDI with main focus on business related as well as nonbusiness-related aspect of terrorism impact. The analysis of the dataset of a panel of 123 developing economies with FEM proved that transnational terrorism which target business related activities hinder FDI, whereas terrorism affecting nonbusiness-related activities does not.

Bandyopadhyay, Sandler and Younas (2013) explored the link of terrorism, aid, FDI and their interactions by focusing on two main forms of terrorism. The analysis with GMM model cover 78 developing economies for 1984 to 2008, with infrastructure availability, inflation, trade openness, GDP growth and some institutional factors as control variables. The findings are quite interesting. Both transnational as well as domestic terrorism impedes FDI, but the consequence of domestic terrorism is more. Furthermore, aggregate aid appears to suppress the adverse consequence of both forms of terrorism, but the impact is more with domestic terrorism. In a related work, Afobi, Asongu and Beecroft (2015) interrogated the interaction of terrorism, aid, FDI and domestic corruption-control in a panel of 73 developing economies over the period 1984 – 2008. The outcome of the GMM analysis show that the adverse consequence of terrorism on FDI is obvious when corruption-control is effective; foreign aid tend to suppress adverse consequence of terrorism on FDI inflow when corruption-control is

effective; bilateral aid seem to inhibit the adverse consequence of transnational terrorism, while multilateral aid tend to stifle the adverse role of all forms of terrorisms on FDI inflow.
Besides, Shah and Faiz (2015) concentrated on using FEM to study the effect of terrorism along with other macroeconomic variables such as exchange rate, market size, trade openness and economic growth on inflow of FDI in India, Bangladesh, Nepal, Sri Lanka and Pakistan spanning the period 1980 – 2012. The authors authenticated the negative impact of terrorism on FDI inflow in the five countries. Moreover, the study by Lee (2016) applied OLS regression on datasets of 114 developing and emerging economies to also validate the detrimental impact of terrorism on FDI, noting that counterterrorism aid received from United States tends to moderate the negative effect of terrorism in the recipient countries.

Conclusion and Directions for Further Research

This paper reviews several empirical studies on the relationship of political stability and FDI inflow from 2000 to 2017. The empirical studies can be broadly categorized into two main groups based on their outcomes. The first category which is the dominant group involve studies that reported positive impact of political stability on FDI. Whereas, the second group on the other hand are those studies that found negative relationship as well as those that could not established any significant link between political stability and FDI.

Additionally, the paper has shown that various studies vary in terms of the context and period of the study as well as the methodology employed in their investigations. All these could have culminated in different findings and conclusions from several studies. Therefore, what is paramount is that there is obvious need for more empirical investigations on the nexus between political stability and FDI in different settings, by taking into consideration economic and socio-cultural differences in order to come up with more robust conclusions.
Furthermore, future studies could undertake systematic review and meta-analysis of the empirical studies on political stability-FDI nexus. Though, some of the studies reviewed in this work utilized dynamic methods, there is the need to employ other dynamic models such as Autoregressive Distributed Lag (ARDL) estimation technique which can be applied for macro panel data analysis. Besides, virtually all the studies that were reviewed in this paper examined the linear relationship of political stability and FDI inflow. As such, future studies could explore the non-linear relationships with a view to come up with more specific policy recommendations that are suitable to various contexts with the overall target of enhancing FDI inflow to drive economic growth and development.

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