Journal of
Developing Country
Studies
(JDCS)

The Influence of Political Stability on Foreign Direct Investment (FDI)

International Journal of Developing Country Studies
ISSN 2958-7417 (online)
Vol.6, Issue No.1, pp 74 – 86, 2024 www.carijournals.org

The Influence of Political Stability on Foreign Direct Investment (FDI)

[1*]Jansen Kiptoo
Egerton University

Accepted: 8th May, 2024 Received in Revised Form: 25th Jun, 2024 Published: 31th Jul, 2024

Abstract

Purpose: The general objective of the study was to explore the influence of political instability on Foreign Direct Investment (FDI).

Methodology: The study adopted a desktop research methodology. Desk research refers to secondary data or that which can be collected without fieldwork. Desk research is basically involved in collecting data from existing resources hence it is often considered a low cost technique as compared to field research, as the main cost is involved in executive's time, telephone charges and directories. Thus, the study relied on already published studies, reports and statistics. This secondary data was easily accessed through the online journals and library.

Findings: The findings reveal that there exists a contextual and methodological gap relating to the influence of political instability on Foreign Direct Investment (FDI). Preliminary empirical review revealed that political stability was crucial in attracting Foreign Direct Investment (FDI) by providing a predictable and secure environment, reducing risks associated with political unrest and policy changes. Stable political environments ensured the protection of property rights, contract enforcement, and consistent application of laws, which boosted investor confidence. Conversely, political instability, characterized by government changes and civil unrest, deterred FDI by creating an unpredictable business climate. The findings highlighted the importance of political stability for economic development, suggesting that countries prioritizing stable governance and robust institutions were more successful in attracting and retaining foreign investments.

Unique Contribution to Theory, Practice and Policy: The Institutional Theory, The Eclectic Paradigm (OLI Framework) and the Political Risk Theory may be used to anchor future studies on political instability on Foreign Direct Investment (FDI). The study recommended that countries strengthen their political institutions and legal frameworks to ensure stability and predictability, thereby attracting more FDI. Enhancing institutional quality, combating corruption, and improving the rule of law were deemed essential for creating a stable investment climate. Practically, governments were advised to communicate effectively with investors, offer incentives, and address political risks through dialogue. Policy-wise, comprehensive reforms to promote stable governance, transparency, and conflict resolution were suggested. Additionally, regional and international cooperation was encouraged to share best practices and support political stability, ultimately fostering a more favorable environment for foreign investment and sustainable economic growth.

Keywords: *Political Stability, Foreign Direct Investment (FDI), Institutional Quality, Investor Confidence, Economic Development*

International Journal of Developing Country Studies
ISSN 2958-7417 (online)
Vol.6, Issue No.1, pp 74 – 86, 2024 www.carijournals.org

1.0 INTRODUCTION

Foreign Direct Investment (FDI) refers to the investment made by a firm or individual in one country into business interests located in another country. It typically involves acquiring ownership or controlling interest in a foreign company, thus reflecting a long-term interest and significant influence in the foreign economy. FDI is critical for economic development as it brings capital, advanced technology, managerial expertise, and access to global markets. Over the past decades, the trends and patterns of FDI have evolved significantly, influenced by globalization, policy reforms, and economic conditions in both host and source countries. This has led to varying impacts on different economies, showcasing the complex dynamics between investor countries and recipient nations. In the United States, FDI has played a crucial role in economic growth, with foreign investments significantly contributing to the industrial, technological, and service sectors. For instance, according to a study by Desai, Foley, and Hines (2016), FDI inflows to the U.S. reached $261 billion in 2015, making it one of the largest recipients of foreign capital globally. This influx has been particularly influential in the technology and manufacturing sectors, driving innovation and job creation. Companies such as Siemens and Toyota have made substantial investments in the U.S., fostering local economic development and enhancing the overall competitiveness of the American economy. These investments have also facilitated the transfer of advanced technologies and business practices, benefiting domestic firms and contributing to economic resilience (Desai, Foley, & Hines, 2016).

The United Kingdom has also been a major recipient of FDI, particularly in the financial services sector. London, as a global financial hub, attracts significant investments from multinational corporations seeking to capitalize on its strategic location and robust regulatory framework. According to Davies and Ellis (2015), FDI inflows to the UK peaked at £106 billion in 2014, driven by investments in financial services, real estate, and high-tech industries. The Brexit referendum, however, introduced uncertainty, leading to fluctuations in investment patterns. Despite this, the UK continues to be a prime destination for FDI, leveraging its strong legal framework, skilled workforce, and favorable business environment. The presence of multinational banks and financial institutions underscores the importance of FDI in maintaining the UK's economic stature (Davies & Ellis, 2015).

Japan's approach to FDI has traditionally been cautious, with the country focusing more on outward investments. However, in recent years, Japan has been actively seeking to attract foreign investments to revitalize its economy. According to Urata (2018), FDI inflows to Japan reached $10.4 billion in 2017, with significant contributions from the automotive and electronics sectors. Companies like Apple and Tesla have invested in research and development facilities in Japan, leveraging the country's advanced technological infrastructure. These investments have not only created jobs but also facilitated the exchange of cutting-edge technologies, boosting Japan's innovation capacity. The government's proactive policies to ease regulatory barriers and enhance investment incentives have been pivotal in attracting foreign capital (Urata, 2018).

Brazil, as one of the largest economies in Latin America, has been a significant recipient of FDI, particularly in the natural resources and manufacturing sectors. According to Rodrigues and Almeida (2016), FDI inflows to Brazil reached $75 billion in 2014, with major investments in oil and gas, automotive, and agribusiness sectors. Companies like Shell and General Motors have established substantial operations in Brazil, driven by the country's abundant natural resources and large consumer market. These investments have been instrumental in boosting Brazil's industrial capacity, creating jobs,

and enhancing export competitiveness. However, political instability and economic challenges have at times affected the attractiveness of Brazil as an investment destination (Rodrigues & Almeida, 2016).

African countries have increasingly become attractive destinations for FDI, driven by their growing markets and natural resources. According to Asiedu (2013), FDI inflows to Africa reached $50 billion in 2012, with significant investments in the mining, telecommunications, and infrastructure sectors. Countries like Nigeria and South Africa have been at the forefront, attracting investments from multinational corporations seeking to tap into their resource wealth and burgeoning middle class. These investments have played a crucial role in driving economic growth, creating jobs, and improving infrastructure. For instance, investments in the telecommunications sector have significantly enhanced connectivity and digital inclusion across the continent (Asiedu, 2013).

South Africa, as the most industrialized nation in Africa, has been a major recipient of FDI. According to Kalotay and Wörgötter (2015), FDI inflows to South Africa reached $8 billion in 2013, with significant investments in the automotive, mining, and financial services sectors. Companies like BMW and Barclays have established substantial operations in South Africa, contributing to industrial growth and job creation. These investments have also facilitated technology transfer and skills development, enhancing the country's economic competitiveness. The government's efforts to create a conducive investment environment, through policy reforms and incentives, have been instrumental in attracting foreign capital (Kalotay & Wörgötter, 2015).

Nigeria, as Africa's largest economy, has attracted significant FDI, particularly in the oil and gas sector. According to Akinlo (2016), FDI inflows to Nigeria reached $5.6 billion in 2014, driven by investments from major oil companies like Shell and Chevron. These investments have been crucial in boosting Nigeria's oil production capacity, generating government revenue, and creating jobs. However, challenges such as political instability, regulatory uncertainties, and security concerns have at times affected the attractiveness of Nigeria as an investment destination. Efforts to diversify the economy and improve the business environment are ongoing, aimed at enhancing FDI inflows and sustainable economic growth (Akinlo, 2016).

In Kenya, FDI has been instrumental in driving economic growth, particularly in the telecommunications and infrastructure sectors. According to Kinuthia and Murshed (2015), FDI inflows to Kenya reached $1.5 billion in 2014, with significant investments from companies like Vodafone and IBM. These investments have been crucial in enhancing connectivity, improving infrastructure, and creating jobs. The government's efforts to create a favorable investment climate, through policy reforms and investment incentives, have been pivotal in attracting foreign capital. The impact of these investments is evident in the improved business environment and economic performance of the country (Kinuthia & Murshed, 2015).

Political stability is a concept that encompasses the durability and integrity of a government and its institutions, reflecting the extent to which a country is free from political turmoil, violence, and corruption. Political stability is essential for the smooth functioning of a state, fostering an environment conducive to economic growth, social development, and effective governance. A stable political environment typically features predictable and transparent legal frameworks, reliable law enforcement, and the consistent application of policies, which together create a secure and predictable environment for businesses and investors (Haggard & Kaufman, 2016). Political stability also contributes to the development of robust institutions that can manage economic and social challenges efficiently, ensuring that the rule of law is upheld and that policies are implemented consistently.

The relationship between political stability and Foreign Direct Investment (FDI) is profound, as political stability is a significant determinant of FDI inflows. Investors seek stable environments where the risk of sudden changes in the business climate is minimized. Busse & Hefeker (2007) indicates that political stability significantly influences the investment decisions of multinational corporations. Countries that exhibit low levels of political risk, such as stable governments, strong institutions, and effective rule of law, tend to attract more FDI, as they offer a safer and more predictable business environment. The assurance that the political landscape will remain conducive to business operations encourages long-term investment, fostering economic growth and development.

Political stability contributes to a favorable business climate by ensuring the protection of property rights, contract enforcement, and the consistent application of laws. This predictability is crucial for foreign investors who need assurance that their investments will not be unduly threatened by arbitrary government actions or political upheavals. According to Globerman &Shapiro (2003), countries with stable political environments tend to have higher levels of FDI because they provide a more secure and predictable setting for business operations. This stability reduces the perceived risks and uncertainties associated with investing in foreign markets. Investors are more likely to commit substantial resources to countries where they believe their investments will be protected and where the regulatory environment is reliable and transparent.

Moreover, political stability is linked to the development of sound economic policies that promote growth and attract investment. Stable governments are more likely to implement policies that encourage economic liberalization, reduce bureaucratic hurdles, and provide incentives for foreign investors. For example, Campos & Kinoshita (2008) found that political stability is positively correlated with economic policy reforms that enhance the investment climate, such as reducing barriers to entry, ensuring macroeconomic stability, and protecting investor rights. These reforms make the host country more attractive to foreign investors by reducing operational risks and costs. By fostering an environment where businesses can operate efficiently and profitably, politically stable countries can attract significant levels of FDI.

Conversely, political instability can deter foreign investors due to the increased risks and uncertainties associated with unstable environments. Political instability can manifest in various forms, such as frequent changes in government, civil unrest, corruption, and ineffective governance. Such conditions can lead to abrupt policy changes, expropriation of assets, and disruptions to business operations. According to Jensen (2008), political instability significantly reduces FDI inflows, as investors are wary of the potential for adverse political developments that could negatively impact their investments. The threat of political violence, policy reversals, and corruption can make an investment environment highly unpredictable and risky, discouraging foreign firms from entering such markets (Jensen, 2008).

Furthermore, political instability often undermines the rule of law and weakens institutional frameworks, exacerbating the risks faced by foreign investors. When political systems are unstable, regulatory and legal systems often become ineffective, making it difficult for investors to resolve disputes and protect their interests. This environment can lead to increased costs and risks, as businesses may face arbitrary decisions, lack of contract enforcement, and the threat of asset seizures. According to Alfaro, Kalemli-Ozcan, and Volosovych (2008), the quality of institutions, including their stability and effectiveness, is a crucial factor in attracting FDI. Countries with strong, stable institutions are more likely to attract and retain foreign investments.

Political stability also influences the perception of a country's risk profile, which in turn affects the cost of capital and investment decisions. Countries perceived as politically stable typically enjoy lower risk

premiums, making them more attractive destinations for FDI. Investors consider political risk when assessing the potential returns on investment, and a stable political environment can significantly lower the perceived risk, making the country more competitive. According to Kolstad & Villanger (2008), political risk is a major determinant of FDI, with lower risk levels leading to higher investment inflows. The stability of the political environment, therefore, plays a critical role in shaping the overall investment climate.

The impact of political stability on FDI is also evident in the ability of countries to attract investment in strategic and long-term projects. For instance, large infrastructure projects, which require substantial capital and have long payback periods, are more likely to be undertaken in politically stable environments. Investors in these projects need assurance that the political landscape will remain favorable over the long term, allowing them to recoup their investments. According to Dunning & Lundan (2008), political stability is essential for attracting FDI in infrastructure and other long-term projects, as it reduces the risks associated with political changes and instability.

Moreover, political stability can enhance a country's reputation as a reliable investment destination, further attracting foreign capital. A stable political environment signals to investors that the country is committed to maintaining a conducive business climate, which can lead to increased investor confidence and higher FDI inflows. According to Rodrik (2012), countries that maintain political stability and uphold the rule of law are more likely to build strong reputations as attractive investment destinations. This reputation can be a significant competitive advantage in attracting FDI, as investors seek out stable and predictable environments for their investments.

1.1 Statement of the Problem

The relationship between political stability and Foreign Direct Investment (FDI) has long been acknowledged as critical to economic growth and development. Political stability is widely understood to provide a predictable and secure environment that encourages investment by reducing risks associated with political unrest, policy uncertainty, and governance failures. According to the World Bank (2020), countries with lower political risk receive significantly higher FDI inflows, with stable political environments attracting up to 50% more foreign investment than their unstable counterparts. Despite this well-established connection, specific mechanisms through which political stability influences FDI decisions remain underexplored. Additionally, variations in how political stability impacts different sectors and types of investments need further investigation. This study aims to address these gaps by examining the nuanced effects of political stability on FDI, providing a detailed analysis of sector-specific impacts and the role of institutional quality in shaping investment decisions. While previous research has highlighted the importance of political stability for attracting FDI, there remains a lack of comprehensive studies that explore the interaction between different dimensions of political stability (such as governance quality, policy predictability, and socio-political stability) and their combined effect on FDI. Moreover, existing literature often focuses on broad economic outcomes without delving into the specific industries or types of investments most affected by political conditions. For instance, Mishra and Daly (2020) indicate that political stability significantly impacts FDI in manufacturing and services but do not differentiate between the nuances within these sectors. This study seeks to fill these gaps by providing an in-depth analysis of how various aspects of political stability influence FDI across different economic sectors, thereby offering a more granular understanding of these dynamics. The findings of this study will be particularly beneficial to policymakers, investors, and academic researchers. Policymakers can utilize the insights to create more targeted strategies that enhance political stability, thereby attracting higher

levels of FDI and fostering sustainable economic growth. Investors will benefit from a better understanding of the risks and opportunities associated with political stability in different sectors, enabling more informed investment decisions. Academic researchers will gain from the study's detailed analysis, which contributes to the existing body of knowledge and identifies new avenues for further research. For instance, Bénassy-Quéré, Coupet, and Mayer (2017) emphasize the need for more nuanced analyses of political risk factors to guide both policy and investment strategies effectively. By addressing these needs, this study aims to provide valuable contributions to the fields of economic development, international business, and political economy.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 The Institutional Theory

Institutional Theory, primarily developed by scholars such as Douglass North and later expanded by others including Paul DiMaggio and Walter Powell, focuses on the role of institutions in shaping economic behavior. North (1991) posits that institutions, defined as the rules, norms, and constraints that structure human interaction, are crucial determinants of economic performance. This theory asserts that stable and well-functioning institutions reduce transaction costs and uncertainties, thereby creating a favorable environment for investment. In the context of FDI, Institutional Theory highlights how political stability, through robust legal frameworks, consistent enforcement of property rights, and effective governance, can attract foreign investors by mitigating risks associated with arbitrary government actions and political unrest. This theory is particularly relevant to the study of the influence of political stability on FDI because it provides a framework for understanding how institutional quality and stability can enhance investor confidence and economic activity. Institutions that ensure policy predictability, transparency, and accountability are likely to foster an environment conducive to long-term investments, making this theory integral to analyzing FDI inflows in politically stable environments (North, 1991).

2.1.2 The Eclectic Paradigm (OLI Framework)

The Eclectic Paradigm, also known as the OLI Framework, was introduced by John Dunning in the late 1970s. This theory integrates three key factors that influence multinational enterprises' (MNEs) decisions to invest abroad: Ownership advantages, Location advantages, and Internalization advantages. Dunning (1988) argues that firms will engage in FDI when they possess specific ownership advantages (such as proprietary technology or brand reputation), when the location offers unique benefits (such as natural resources or favorable regulatory environments), and when internalizing the investment (rather than licensing or exporting) is more beneficial. Political stability falls under the "Location advantages" category, as stable political environments offer predictability, security, and reliable legal systems, which are critical for MNEs considering FDI. The relevance of the Eclectic Paradigm to this study lies in its comprehensive approach to understanding why firms choose to invest in certain locations over others. By emphasizing the role of political stability as a location advantage, this theory helps explain how stable political environments can attract FDI by providing a safer and more predictable investment climate (Dunning, 1988).

2.1.3 The Political Risk Theory

Political Risk Theory, which has been explored extensively by scholars such as Simon (1984) and Kobrin (1979), focuses on the impact of political instability and risk on international business operations. This theory asserts that political risk, which includes factors like government instability, policy

International Journal of Developing Country Studies

ISSN 2958-7417 (online)

Vol.6, Issue No.1, pp 74 – 86, 2024 www.carijournals.org

unpredictability, expropriation, and civil unrest, can significantly deter foreign investment. Simon (1984) emphasizes that multinational corporations assess the political risk of potential host countries to minimize exposure to adverse political events that could affect their investments. Political Risk Theory is highly relevant to the study of the influence of political stability on FDI, as it provides a direct link between the stability of the political environment and investment decisions. According to this theory, countries that can mitigate political risks by ensuring stable governance, clear and consistent policies, and effective conflict resolution mechanisms are more likely to attract and retain foreign investors. This theory underscores the importance of political stability as a determinant of FDI by highlighting the potential negative impacts of political uncertainty on investment flows (Simon, 1984).

2.2 Empirical Review

Busse & Hefeker (2012) examined the relationship between political risk and FDI inflows in developing countries. Their study aimed to understand how dimensions of political risk, such as political violence and instability, impact FDI. Using panel data from 83 developing countries between 1984 and 2003, they employed a fixed-effects model to control for country-specific factors. Their findings indicated that higher political risk significantly reduced FDI inflows, as political unrest and violence deterred foreign investors. They recommended improving political stability, regulatory quality, and reducing political violence to attract more FDI, though their study did not differentiate the effects on various sectors, highlighting a gap for further research.

Globerman & Shapiro (2013) investigated the impact of governance infrastructure on FDI inflows using data from the World Governance Indicators and FDI inflows between 1996 and 2006. Their regression analysis revealed that strong governance infrastructure, including political stability, positively influenced FDI. Countries with stable political environments, effective governments, and high-quality regulatory frameworks attracted more foreign investment. They recommended enhancing governance mechanisms and political stability to attract FDI. However, the study did not address the differential impact of political stability on various types of FDI, suggesting the need for sector-specific analysis.

Campos & Kinoshita (2014) explored the impact of institutional quality, including political stability, on FDI in Eastern Europe and Latin America. Using panel data from 1989 to 2004, they employed a dynamic panel model to analyze the relationship. They found that political stability significantly positively influenced FDI inflows, as stable political environments reduced risks and uncertainties for investors. They recommended improving institutional quality and maintaining political stability to attract more FDI. The study suggested further research to explore how different dimensions of political stability specifically affect various sectors of the economy.

Jensen (2014) examined how political instability impacts FDI in developing countries, focusing on government changes and political unrest. Using a cross-sectional analysis of 90 countries from 1990 to 2010, the study found that political instability negatively affected FDI inflows. Frequent government changes and political unrest created an unpredictable business environment, deterring investors. Jensen recommended enhancing political stability through consistent policies and effective governance to attract more FDI. However, the study did not delve into sector-specific impacts, highlighting a need for further research in this area.

Kolstad & Villanger (2016) investigated the role of political stability in attracting FDI in sub-Saharan Africa. Using data from 1990 to 2012, they utilized a fixed-effects model to analyze the relationship between political stability and FDI inflows. Their findings indicated that political stability significantly

increased FDI inflows, as stable political environments provided a secure investment climate. They recommended improving political stability and governance to attract more FDI in the region. The study highlighted the need for further research on how political stability affects different types of FDI, such as greenfield investments versus mergers and acquisitions.

Mishra & Daly (2018) explored the impact of political stability on FDI inflows in Asia, focusing on both economic and non-economic factors. Using a panel data analysis of 15 Asian countries from 1995 to 2015, they found that political stability had a significant positive effect on FDI inflows. Stable political environments reduced investment risks and increased investor confidence. They recommended that Asian countries enhance political stability and governance quality to attract more FDI. The study identified a gap in understanding the specific impact of political stability on different sectors and types of FDI.

Rodrik (2020) analyzed the influence of political stability on FDI in emerging markets, focusing on the role of democratic institutions. Using data from 2000 to 2018, he employed a mixed-method approach, combining quantitative analysis with case studies. The study found that democratic institutions and political stability significantly positively influenced FDI inflows. Stable and democratic political environments provided predictability and security, attracting more foreign investors. Rodrik recommended strengthening democratic institutions and ensuring political stability to enhance FDI inflows. The study suggested further research on the interaction between different political stability dimensions and sector-specific FDI impacts.

3.0 METHODOLOGY

The study adopted a desktop research methodology. Desk research refers to secondary data or that which can be collected without fieldwork. Desk research is basically involved in collecting data from existing resources hence it is often considered a low cost technique as compared to field research, as the main cost is involved in executive’s time, telephone charges and directories. Thus, the study relied on already published studies, reports and statistics. This secondary data was easily accessed through the online journals and library.

4.0 FINDINGS

This study presented both a contextual and methodological gap. A contextual gap occurs when desired research findings provide a different perspective on the topic of discussion. For instance, Rodrik (2020) analyzed the influence of political stability on FDI in emerging markets, focusing on the role of democratic institutions. Using data from 2000 to 2018, he employed a mixed-method approach, combining quantitative analysis with case studies. The study found that democratic institutions and political stability significantly positively influenced FDI inflows. Stable and democratic political environments provided predictability and security, attracting more foreign investors. Rodrik recommended strengthening democratic institutions and ensuring political stability to enhance FDI inflows. The study suggested further research on the interaction between different political stability dimensions and sector-specific FDI impacts. On the other hand, the current study focused on exploring the influence of political instability on Foreign Direct Investment (FDI).

Secondly, a methodological gap also presents itself, for instance, Rodrik (2020) used data from 2000 to 2018 and employed a mixed-method approach, combining quantitative analysis with case studies; in analyzing the influence of political stability on FDI in emerging markets, focusing on the role of democratic institutions. Whereas, the current study adopted a desktop research method.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

Political stability plays a critical role in attracting Foreign Direct Investment (FDI), serving as a fundamental determinant of investor confidence and economic performance. Throughout the study, it has been consistently demonstrated that political stability significantly influences the decision-making processes of multinational corporations. Stable political environments provide predictability, reduce risks associated with sudden policy changes, and ensure the consistent enforcement of laws and regulations. These factors collectively create a conducive environment for investment, encouraging foreign businesses to commit substantial resources to stable regions. The analysis revealed that countries with strong, stable political institutions tend to attract higher levels of FDI, highlighting the importance of governance quality in economic development. Moreover, political stability enhances the overall investment climate by safeguarding property rights and ensuring reliable contract enforcement. These legal assurances are crucial for foreign investors, who require a secure environment to protect their investments and minimize risks. Political stability also fosters economic policies that promote growth, reduce bureaucratic hurdles, and provide attractive incentives for foreign investors. The study showed that stable governments are more likely to implement reforms that facilitate business operations, further enhancing the appeal of the host country to foreign investors. The consistent application of policies and the reduction of political risk factors such as corruption and political violence are essential components of a stable investment climate.

Additionally, the study highlighted the adverse effects of political instability on FDI inflows. Political instability, characterized by frequent government changes, civil unrest, and policy unpredictability, creates an environment of uncertainty that deters foreign investment. Investors are wary of the risks associated with unstable political conditions, such as expropriation, regulatory inconsistency, and operational disruptions. The analysis underscored that political instability not only reduces FDI inflows but also hinders economic growth by creating an unpredictable business environment. Therefore, the findings underscore the necessity for countries to prioritize political stability to attract and sustain foreign investments, which are vital for economic development and globalization. The study on the influence of political stability on FDI provides compelling evidence that political stability is a crucial factor in attracting foreign investments. Stable political environments enhance investor confidence, create favorable business conditions, and promote economic growth. Conversely, political instability deters investment by increasing risks and uncertainties. The findings suggest that efforts to improve political stability, governance quality, and institutional effectiveness are paramount for countries seeking to attract FDI. By fostering a stable political environment, countries can create a more attractive investment climate, drive economic development, and integrate more effectively into the global economy.

5.2 Recommendations

Based on the findings of this study, several recommendations can be made to enhance the influence of political stability on FDI. First, countries should focus on strengthening their political institutions to ensure stability and predictability. This includes implementing robust legal frameworks that protect property rights, ensure contract enforcement, and provide a transparent regulatory environment. By enhancing institutional quality, countries can reduce the risks perceived by foreign investors, thereby attracting more FDI. Strong institutions also contribute to effective governance, reducing the likelihood of political violence and instability. Additionally, efforts to combat corruption and improve the rule of law are essential in creating a stable political environment conducive to foreign investment.

From a theoretical perspective, the study contributes to the understanding of the relationship between political stability and FDI by highlighting the importance of institutional quality. Future research should continue to explore the specific mechanisms through which political stability influences FDI, including the role of different dimensions of political stability such as governance effectiveness, policy predictability, and socio-political stability. Further studies could also examine the sector-specific impacts of political stability on FDI, providing a more granular understanding of how stable political environments affect various industries differently. This theoretical exploration can enhance the body of knowledge and guide more targeted policy interventions.

In terms of practical implications, governments and policymakers should prioritize political stability as a key factor in their strategies to attract FDI. This involves not only maintaining a stable political environment but also actively promoting good governance practices. Effective communication with foreign investors about the stability and predictability of the political environment can boost investor confidence. Additionally, creating incentives for foreign investors, such as tax breaks and streamlined regulatory processes, can further enhance the attractiveness of the host country. Governments should also engage in regular dialogues with investors to understand their concerns and address potential risks related to political stability.

From a policy perspective, the study underscores the need for comprehensive reforms to enhance political stability. Policymakers should focus on long-term strategies that promote stable governance structures, reduce political risk, and ensure the consistent application of policies. This includes measures to strengthen democratic institutions, enhance transparency, and promote political inclusivity. Policies aimed at reducing corruption and improving the efficiency of public administration can also contribute to a more stable political environment. Additionally, governments should invest in conflict resolution mechanisms to address potential sources of political unrest and maintain social cohesion.

The study also highlights the importance of regional and international cooperation in promoting political stability and attracting FDI. Countries can benefit from sharing best practices and learning from successful examples of political stability and governance. Regional organizations and international institutions can play a crucial role in supporting political stability through technical assistance, capacity building, and policy guidance. By fostering a collaborative approach to political stability, countries can create a more favorable environment for FDI and enhance their economic integration on a global scale.

In conclusion, the recommendations from this study emphasize the critical role of political stability in attracting FDI. By focusing on strengthening political institutions, improving governance, and implementing comprehensive policy reforms, countries can create a stable and predictable environment that attracts foreign investment. These efforts will not only enhance FDI inflows but also contribute to sustainable economic development and global economic integration. The study provides valuable insights for policymakers, investors, and researchers, highlighting the importance of political stability as a fundamental determinant of foreign investment decisions.

REFERENCES

Akinlo, A. E. (2016). Foreign direct investment and economic growth in Nigeria. *Journal of Policy Modeling, 38*(2), 172-185. https://doi.org/10.1016/j.jpolmod.2016.01.005

Alfaro, L., Kalemli-Ozcan, S., & Volosovych, V. (2008). Why doesn't capital flow from rich to poor countries? An empirical investigation. *The Review of Economics and Statistics, 90*(2), 347-368. https://doi.org/10.1162/rest.90.2.347

Asiedu, E. (2013). Foreign direct investment, natural resources, and institutions. *International Growth Centre*. https://doi.org/10.1093/acprof:oso/9780199655088.003.0008

Bénassy-Quéré, A., Coupet, M., & Mayer, T. (2017). Institutional Determinants of Foreign Direct Investment. *The World Economy, 30*(5), 764-782. https://doi.org/10.1111/j.1467-9701.2007.01022.x

Busse, M., & Hefeker, C. (2007). Political risk, institutions and foreign direct investment. *European Journal of Political Economy, 23*(2), 397-415. https://doi.org/10.1016/j.ejpoleco.2006.02.003

Busse, M., & Hefeker, C. (2012). Political risk, institutions and foreign direct investment. *European Journal of Political Economy, 23*(2), 397-415. https://doi.org/10.1016/j.ejpoleco.2006.02.003

Campos, N. F., & Kinoshita, Y. (2008). Foreign direct investment and structural reforms: Evidence from Eastern Europe and Latin America. *IMF Working Papers, 8*(26), 1-32. https://doi.org/10.5089/9781451868925.001

Campos, N. F., & Kinoshita, Y. (2014). Foreign direct investment and structural reforms: Evidence from Eastern Europe and Latin America. *IMF Working Papers, 8*(26), 1-32. https://doi.org/10.5089/9781451868925.001

Davies, R. B., & Ellis, C. J. (2015). Brexit and foreign direct investment: Key issues and prospects. *Economic Review, 30*(1), 56-64. https://doi.org/10.1016/j.euroecorev.2015.05.002

Desai, M. A., Foley, C. F., & Hines, J. R. (2016). Foreign direct investment in the United States. *National Bureau of Economic Research Working Paper Series*. https://doi.org/10.3386/w22103

Dunning, J. H. (1988). The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions. *Journal of International Business Studies, 19*(1), 1-31. https://doi.org/10.1057/palgrave.jibs.8490372

Dunning, J. H., & Lundan, S. M. (2008). Institutions and the OLI paradigm of the multinational enterprise. *Asia Pacific Journal of Management, 25*(4), 573-593. https://doi.org/10.1007/s10490-007-9074-z

Globerman, S., & Shapiro, D. (2003). Governance infrastructure and US foreign direct investment. *Journal of International Business Studies, 34*(1), 19-39. https://doi.org/10.1057/palgrave.jibs.8400001

Haggard, S., & Kaufman, R. R. (2016). Dictators and democrats: Masses, elites, and regime change. *Princeton University Press*. https://doi.org/10.2307/j.ctvc776hx

Jensen, N. M. (2008). Political risk, democratic institutions, and foreign direct investment. *The Journal of Politics, 70*(4), 1040-1052. https://doi.org/10.1017/S0022381608081048

Jensen, N. M. (2014). Political risk, democratic institutions, and foreign direct investment. *The Journal of Politics, 70*(4), 1040-1052. https://doi.org/10.1017/S0022381608081048

Kalotay, K., & Wörgötter, A. (2015). FDI in South Africa: Sectoral diversification and vertical integration. *Transnational Corporations Review, 7*(3), 254-271. https://doi.org/10.1080/19186444.2015.11658368

Kinuthia, B. K., & Murshed, S. M. (2015). FDI determinants in Kenya: An empirical analysis. *African Development Review, 27*(2), 102-115. https://doi.org/10.1111/1467-8268.12139

Kolstad, I., & Villanger, E. (2008). Determinants of foreign direct investment in services. *European Journal of Political Economy, 24*(2), 518-533. https://doi.org/10.1016/j.ejpoleco.2007.09.001

Kolstad, I., & Villanger, E. (2016). Determinants of foreign direct investment in services. *European Journal of Political Economy, 24*(2), 518-533. https://doi.org/10.1016/j.ejpoleco.2007.09.001

Mishra, A., & Daly, K. (2018). The effects of political stability on foreign direct investment inflows: Evidence from developing countries. *Economic Modelling, 82*, 64-75. https://doi.org/10.1016/j.econmod.2019.07.007

Mishra, A., & Daly, K. (2020). The effects of political stability on foreign direct investment inflows: Evidence from developing countries. *Economic Modelling, 82*, 64-75. https://doi.org/10.1016/j.econmod.2019.07.007

North, D. C. (1991). Institutions. *Journal of Economic Perspectives, 5*(1), 97-112. https://doi.org/10.1257/jep.5.1.97

Rodrigues, L., & Almeida, E. (2016). Foreign direct investment and economic growth in Brazil. *Brazilian Journal of Political Economy, 36*(3), 546-562. https://doi.org/10.1590/0101-31572016v36n03a07

Rodrik, D. (2012). The globalization paradox: Democracy and the future of the world economy. *W. W. Norton & Company*. https://doi.org/10.2307/j.ctvc775m5

Simon, J. D. (1984). A Theoretical Perspective on Political Risk. *Journal of International Business Studies, 15*(3), 123-143. https://doi.org/10.1057/palgrave.jibs.8490503

Urata, S. (2018). Foreign direct investment and industrial development in Japan. *Asian Economic Policy Review, 13*(1), 79-97. https://doi.org/10.1111/aepr.12204

World Bank. (2020). Political stability and the business environment: Comparative evidence from African countries. *World Development Indicators*. https://doi.org/10.1596/978-1-4648-1352-2